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U.S. DOL **Making Work Pay**

The Case for Raising the Minimum Wage

Office of the Chief Economist

March 1996

This document was prepared in early 1996 to outline the case for raising the minimum wage. It outlines who earns the minimum wage and answers questions about the likely impact of raising the minimum.

NOTE: The full report is also available in PDF format. In order to view PDF documents you must have a PDF viewer (e.g., Amber or Acrobat Reader) available on your workstation.

Fact Sheet

Americans know a raise in the minimum wage is one way to help make work pay. For many working Americans an increase in the minimum wage will make the difference between living in poverty and not. Furthermore, a higher minimum wage -- a floor to ensure workers that they're getting a fair deal for their efforts -- provides a foothold into the middle class for many other families.

The Problem: The Minimum Wage is Worth Less Than It Used to Be

The Federal minimum wage is currently \$4.25 per hour. Adjusted for inflation, the value of the minimum wage has fallen by nearly 50 cents since it was last increased in 1991, and is now 29% lower than it was in 1979. If left unchanged, its real value will be at a forty-year low by January 1997.

Raising the minimum wage is one way to make work pay. A recent study concluded that the decline in the real value of the minimum wage since 1979 accounts for 20% of the rise in wage inequality for men, and 30% for women (see DiNardo, Lemieux & Fortin). According to the Bureau of Labor Statistics, 3.66 million workers paid by the hour earn at or below the minimum wage. An increase in this living wage is a strong response to the stagnant incomes that many of these workers face.

Many Adults Rely on the Minimum Wage as a Living Wage

Contrary to popular opinion, the average worker affected by an increase in the minimum

wage is not just a teenager flipping hamburgers. Only one in fourteen is a teenage student from a family with above average earnings.

The fact is, almost two-thirds of minimum wage workers are adults, and four in ten are the sole bread winner of their family.

Increasing the Minimum Wage Lifts Families out of Poverty

Twenty percent of those living on the minimum wage the last time it was raised in 1991 were in poverty, and an additional 13% were near poverty. In 1993, the President expanded the Earned Income Tax Credit (EITC), which raised income for 15 million families, helping many working families move above the poverty line. Yet to complete the goal of insuring that full-time working families are out of poverty, we need to raise the minimum wage. Recent analysis by the Economic Policy Institute and preliminary work by the Department of Health and Human Services suggests that 300,000 people would be lifted out of poverty if the minimum wage was raised to \$5.15 per hour. This figure includes 100,000 children who are currently living in poverty.

The current poverty line for a family of 4 is \$15,600. A family of 4 with one worker earning \$4.25 an hour and working full-time year round (\$8,500) would receive a tax credit of \$3,400 under the 1996 provisions of the EITC, will collect food stamps worth \$3,516, and will pay \$650 in payroll taxes. This family would end up \$834 below the poverty line. On the other hand, for a family of 4 with one worker earning \$10,300 (a full-time year round worker at \$5.15 per hour), the EITC would provide the maximum tax credit (\$3,560), food stamps would provide \$2,876, and they would pay \$788 in payroll taxes. The increase in the minimum wage -- along with EITC and food stamps -- would lift this family out of poverty.

What a Moderate Increase in the Minimum Wage Would Mean for Workers

The President's proposal to raise the minimum wage by \$.90 would generate \$1800 in potential income for minimum wage workers.

Based on expenditure patterns of an average family, \$1800 would buy:

- Seven months of groceries
- One year of health care costs, including insurance premiums, prescription drugs, and out-of-pocket costs
- Nine months' worth of utility bills
- More than a full-year's tuition at a 2-year college
- Basic housing costs for almost 4 months

Many Working Women Depend upon the Minimum Wage

Fifty nine percent of workers earning from \$4.25 to \$5.14 per hour are women; of those, 72

percent are adults 20 years old or over. The President's proposal to increase the minimum wage would raise wages of more than 5.7 million working women. This includes more than 950,000 African-American women and 760,000 women of Hispanic origin. Single heads of households, who are often women, represent over one-fifth of all families who currently rely on the earnings of a worker making \$4.25 to \$5.14 per hour.

A Moderate Increase in the Minimum Wage Does Not Cost Jobs

The standard criticism of the minimum wage is that it raises employers' costs and reduces employment opportunities for teenagers and disadvantaged workers. However, several studies have found that the last two increases in the minimum wage had an insignificant effect on employment. Furthermore, an extension of the time-series studies that had previously been used to claim that raising the minimum wage decreases employment, no longer finds a significant impact.

In a recent review of the literature, Professor Richard Freeman of Harvard, a widely respected labor economist, wrote: "At the level of the minimum wage in the late 1980s, moderate legislated increases did not reduce employment and were, if anything, associated with higher employment in some locales."

In discussing the minimum wage, Robert M. Solow, a Nobel laureate in economics at the Massachusetts Institute of Technology, recently told the New York Times, "The main thing about (minimum wage) research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

Americans Want an Increase in the Minimum Wage

The American public supports increasing the minimum wage by a solid margin. Nearly every survey finds overwhelming support for raising the minimum wage. For example, a national poll conducted in January 1995 for the Los Angeles Times found that 72% of Americans backed an increase in the wage, confirming a December 1994 Wall Street Journal/NBC News survey that found raising the minimum wage is favored by 75%.

Despite expected criticism in some corners, the minimum wage has traditionally had bipartisan support. In 1989, the minimum wage increase passed the House by a vote of 382 to 37 (with 135 Republicans voting for the bill), and 89 to 8 in the Senate (with the support of 36 Republicans).

Currently, ten states and the District of Columbia have minimum wages that exceed the Federal minimum wage (Alaska, Connecticut, Hawaii, Iowa, Massachusetts, New Jersey, Oregon, Rhode Island, Vermont and Washington). Delaware is expected to pass legislation that will raise its minimum wage on April 15, 1996. Hawaii's minimum wage is \$5.25 an hour and Massachusetts will match this in January 1997; New Jersey's is \$5.05.

The Minimum Wage

Myth and Reality

The federal minimum wage now stands at \$4.25 per hour. A person who works full-time all year long at that wage earns only \$8500 in a year. The buying power of the minimum wage is already 29 percent lower than in 1979 -- and if left unchanged, will be at its lowest point in 40 years by January 1997. To restore that buying power and to make work pay, the President has challenged Congress to raise the minimum wage.

But the debate has been muddled by several myths that anti-minimum wage forces repeat at every opportunity.

Myth: The only Americans working for the minimum wage are teenagers.

Reality: 63 percent of minimum-wage workers are adults age 20 or over. (Source: Bureau of Labor Statistics)

Myth: Minimum wage workers don't support families.

Reality: The last time the federal minimum wage was increased, the average minimum wage worker brought home 51 percent of his or her family's weekly earnings. (Source: Analysis of Census Bureau's Current Population Survey by Professors David Card and Alan Krueger)

Myth: Raising the minimum wage hurts the poor by causing job loss.

Reality: Nearly 10 million working Americans would get a pay raise if the minimum wage is increased to \$5.15 per hour. As Nobel Prize-winning economist Robert Solow said, "[T]he evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small." (Source: *New York Times*, January 12, 1995)

Myth: The only study showing that raising the minimum wage does not cost jobs was a study funded by the U.S. Labor Department.

Reality: One major study -- conducted in 1992 and financed by Princeton University and the University of Wisconsin -- was published by two Princeton University economists. One of those economists later joined the Labor Department. (Source: *Washington Post*, January 11, 1995) Furthermore, a similar conclusion has been reached by at least ten other independent studies.

Myth: Raising the minimum wage will have a negligible impact on people's lives.

Reality: A 90-cent per hour increase in the minimum wage means an additional \$1,800 for a minimum wage earner who works full-time, year round -- as much as the average family spends on groceries in more than 7 months. (Source: Bureau of Labor Statistics)

Myth: Increasing the minimum wage has always been a bitter, partisan issue that only Democrats have supported.

Reality: In 1989, the last time the minimum wage was increased, the House of Representatives vote in favor of the proposal was 382 to 37, and the Senate vote was 89 to 8. Indeed, Senator Dole said at the time, "[T]his is not an issue where we ought to be standing and holding up anybody's getting a 30 to 40 cents an hour pay increase, at the same time that we're talking about capital gains. I never thought the Republican Party should stand for squeezing every last nickel from the minimum wage." (Source: *Congressional Quarterly Almanac 1989*)

Making Work Pay

Questions and Answers on Raising the Minimum Wage

With unemployment at its lowest level in years, should we be tinkering with the minimum wage? Won't an increase in the minimum wage hinder the creation of new jobs?

The minimum wage is currently valued at 29% lower in real terms than it was in 1979.

A number of recent studies have found that a moderate rise in the minimum wage has little, if any, affect on job creation starting at such a low level. In fact, "The impact of a minimum wage rise on jobs is small," the New York Times quoted Nobel Laureate Robert Solow as saying. The Times also reported that economists agree that a minimum wage rise will lift the incomes of low wage workers.

Isn't the minimum wage poorly targeted to people in poverty? The Democratic Leadership Council reports that a number of minimum wage workers are in households with earnings higher than the median worker. Wouldn't a rise in the minimum wage just help middle class teenagers?

Although some people who earn the minimum wage are teenagers, almost two-thirds are adults age 20 and older. The average minimum wage worker brings home about half of his or her family's earnings. Increasing the minimum wage will help these workers to make up for lost ground due to inflation -- it will help make work pay.

The minimum wage provides a foothold into the middle class. A family with two full-time year round workers would earn \$20,600 a year with a \$5.15 minimum wage.

Wouldn't a rise in the minimum wage hurt minorities and the disadvantaged due to job loss?

As the New York Times reported, most economists agree that raising the minimum wage increases the incomes of low wage workers, which more than offsets any effect on jobs. Further, studies of minimum wage increases fail to show disproportionate impacts for minority youth.

Additionally, public support for a minimum wage increase is strong. A January 1995 Los Angeles Times poll found that 72% of Americans back an increase, confirming a December 1994 Wall Street Journal/NBC News poll that found that 75% of adults favored a rise in the minimum wage.

How many workers are affected by a rise in the minimum wage?

An estimated 10 million hourly paid workers earn between \$4.25 and \$5.14, and would directly benefit from the President's proposal to increase the minimum wage.

How can you contemplate a rise in the minimum wage with a new Congress intent on getting government off the backs of business?

The minimum wage has historically enjoyed bipartisan support. Sens. Dole and Kassenbaum, Speaker Gingrich and Rep. Goodling voted for the last minimum wage increase to \$4.25 an hour in 1989.

Governors across the country are fighting against unfunded mandates. Isn't the minimum wage an unfunded mandate on businesses and states?

The minimum wage is not a new unfunded mandate. In fact, given the erosion of the value of the minimum wage over the last 15 years it is now much less of a mandate on businesses and the public sector than it used to be.

What do you say to all the businesses that say they will lose profit and possibly go bankrupt if the minimum wage is raised? Aren't you just antagonizing the business community by proposing a minimum wage increase?

Inflation has eroded the minimum wage so much that it is currently at its second lowest level since the 1950s. The economy has been very strong, but wages have not grown as much as they need to for the middle class to keep up.

The Clinton Administration has pursued economic policies to put our fiscal house in order, laying the foundation for the current economic expansion. But the problem is that low-wage and middle class workers have not shared fully in this recovery.



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F Labor
(Min Wage)

The Living Wage: Survey of Labor Economists

The Survey Center
University of New Hampshire

Employment Policies Institute
August 2000

The University of New Hampshire Survey Center

The UNH Survey Center is an independent, non-partisan academic survey research organization and a division of the UNH Institute for Policy and Social Science Research.

The Survey Center conducts telephone, mail, e-mail, Internet, and self-administered surveys, as well as focus groups and other qualitative research for university researchers, government agencies, public non-profit organizations, private businesses, and media clients.

Our senior staff have 22 years experience in designing and conducting custom research on a broad range of political, social, health care, and other public policy issues.

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Living Wage Survey of Labor Economists

Executive Summary

The 2000 Living Wage Survey was conducted by the University of New Hampshire Survey Center for the Employment Policies Institute in February and March, 2000. Three hundred thirty-six (336) labor economists in the United States completed mail questionnaires for the survey. A list of economists was obtained from the American Economic Association (AEA) and consisted of all AEA members who indicated that their primary or secondary area of expertise is labor economics. For a more complete description of survey methodology, please see the attached Technical Report.

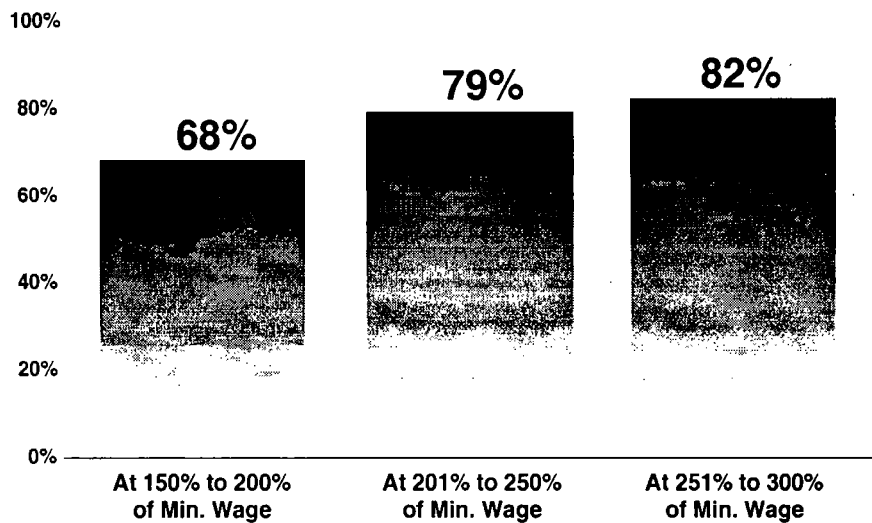
The major findings of this survey include:

- More than three-fourths of labor economists believe a national living wage would result in employers hiring better skilled applicants than they hired before the increase. Similarly, more than three-fourths of labor economists believe that a national living wage policy would result in employment losses. On a local level, the higher the proposed level of the living wage (in terms of its percentage of the current minimum wage level) the more likely employers are to hire better-skilled applicants. Also, the higher the proposed level of the living wage (in terms of its percentage of the current minimum wage level) the more likely employment losses will result.
- More than eight in ten labor economists strongly oppose using a family of four as the standard for setting hourly minimum wage levels. Economists are also strongly opposed to using a family of three as the standard for setting minimum wage levels.
- Labor economists were asked to rate the efficiency of three proposed policies which address the income needs of poor families: a living wage ordinance, the Earned Income Tax Credit, and general welfare grants. Of these three options, the Earned Income Tax Credit is rated most efficient followed by general welfare grants. A living wage ordinance is judged least efficient.
 - More than half of labor economists (51%) rated the Earned Income Tax Credit as very efficient, another 47% believe it is somewhat efficient, and only 2% think it is not at all efficient.
 - General welfare grants are rated very efficient by 15% of labor economists, 66% believe they are somewhat efficient, and 19% think they are not at all efficient.
 - Only 7% of labor economists believe a living wage ordinance is a very efficient way to address the income needs of poor families, 24% think it is somewhat efficient, and 69% think it is not at all efficient.
- Labor economists are divided over the impact of a national living wage policy on poverty rates with a plurality (43%) believing that such a policy would lead to increased poverty rates, 31% believe such a policy would lead to reduced poverty rates, and 26% believe such a policy would not result in a change in poverty rates.

No. 1: Impact of Differing Living Wage Levels on Skill Level of Hires

Will a Living Wage Policy Cause Hiring of Applicants with Greater Skills?

(Percent Responding With "Yes")



Survey Question:

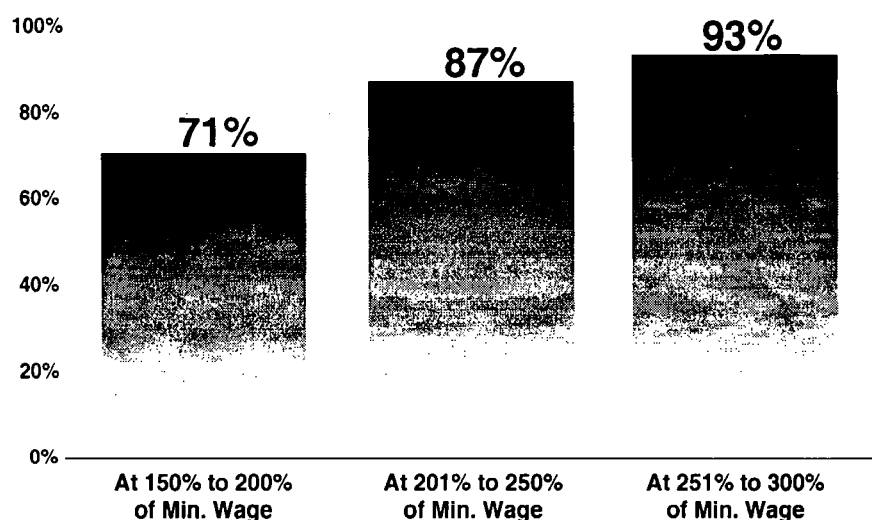
"Do you believe employers affected by a local living wage would hire entry-level employees with greater skills/experience if the enforced living wage was:"

Percent of Current Minimum Hr. Wage	Yes	No	(N)
150% to 200%	68%	32%	(325)
201% to 250%	79%	21%	(326)
251% to 300%	82%	18%	(325)

No. 2: Impact of Differing Living Wage Levels on Number of Entry-Level Employees Hired

Will a Living Wage Policy Cause a Decrease in the Number of Employees Hired?

(Percent Responding With "Yes")



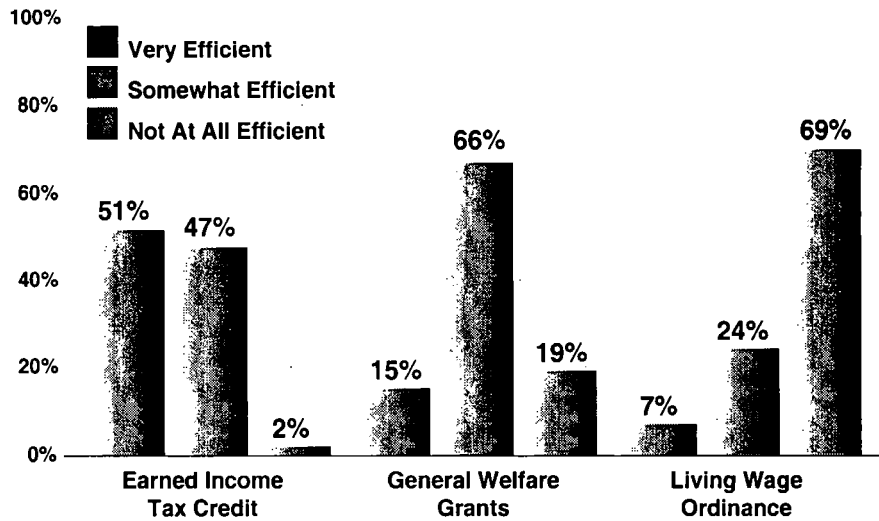
Survey Question:

"Do you believe employers affected by a local living wage law would decrease the number of entry-level employees if the enforced living wage was:"

Percent of Current Minimum Hr. Wage	Yes	No	(N)
150% to 200%	71%	29%	(330)
201% to 250%	87%	13%	(328)
251% to 300%	93%	7%	(328)

No. 3: Efficiency of Anti-Poverty Policies

How Efficient
Are Today's
Anti-Poverty
Policies?



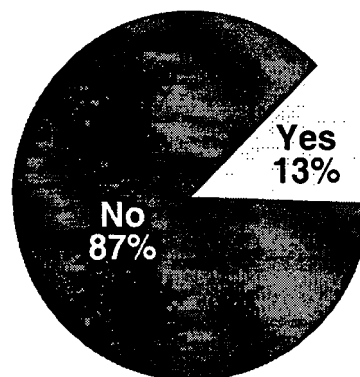
Survey Question:

"In your opinion, how efficient would each of the following proposed policies be in addressing the income needs of poor families, on a scale of 'not at all efficient', 'somewhat efficient', 'very efficient'. A living wage ordinance. Earned Income Tax Credit (and similar wage supplements). General welfare grants (e.g., TANF, food stamps)."

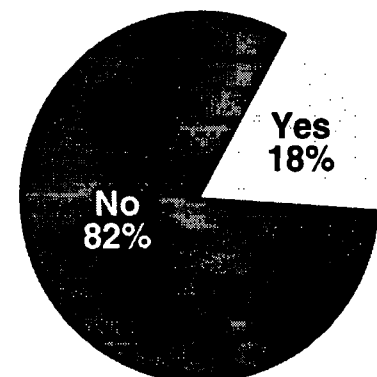
Policy	Very Efficient	Somewhat Efficient	Not At All Efficient	(N)
Earned Income Tax Credit	51%	47%	2%	(331)
General Welfare Grants	15%	66%	19%	(330)
Living Wage Ordinance	7%	24%	69%	(331)

No. 4: Acceptable Standard for Setting Minimum Wage Levels

Is the Poverty
Level for a Family
of Three/Four an
Acceptable Stan-
dard in Setting
the Hourly Mini-
mum Wage for
All Employees?



Family of Four



Family of Three

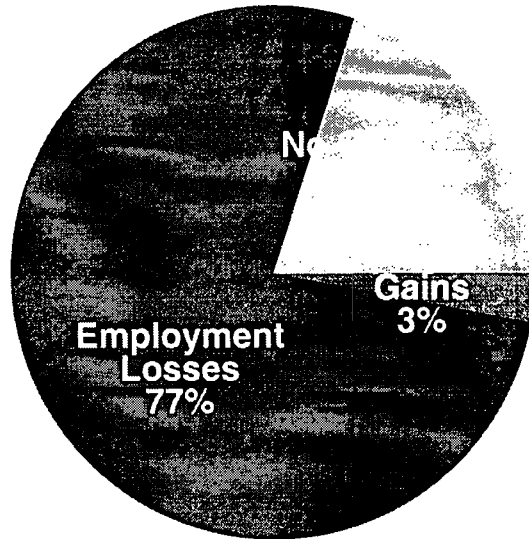
	Yes	No	(N)
Poverty level for a family of four	13%	87%	(322)
Poverty level for a family of three	18%	82%	(322)

Survey Question:

"According to government data, minimum wage employees are spread across a range of family types, with concentrations among single adults, dual-earner households, and individuals living with parents or relatives. In your opinion, is the poverty level for a family of four three an acceptable standard to use in setting hourly minimum wage levels for all employees?"

No. 5: Impact of National Living Wage Standard on Employment

How Would a National Living Wage Standard Affect Employment?



Survey Question:

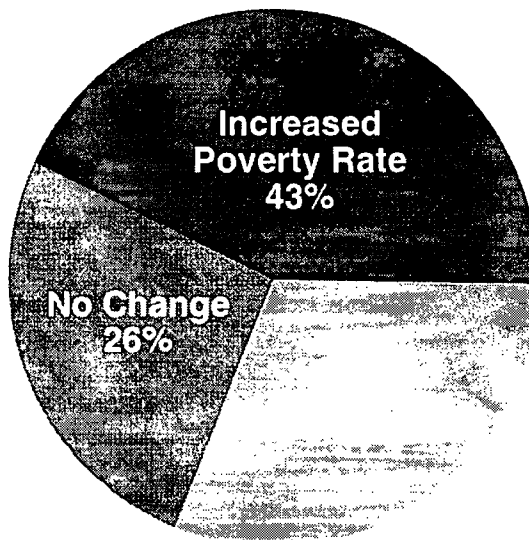
"Several organizations and federal legislators have proposed a national living wage standard for all employees. Do you believe such a national policy would lead to ... employment gains, employment losses, no change in employment?"

Employment Gains
Employment Losses
No Change in Employment
(N)

Percent
3%
77%
20%
(332)

No. 6: Impact of National Living Wage Standard on Poverty Rates

How Would a National Living Wage Standard Affect Poverty?



Survey Question:

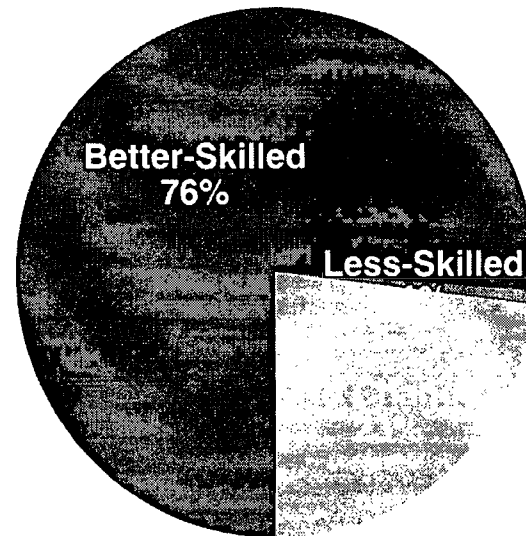
"Several organizations and federal legislators have proposed a national living wage standard for all employees. Do you believe such a national policy would lead to ... increased poverty rates, reduced poverty rates, no change in poverty rates?"

Increased Poverty Rates
Reduced Poverty Rates
No Change in Poverty Rates
(N)

Percent
43%
31%
26%
(325)

No. 7: Impact of National Living Wage Standard on Skill Level of Applicants Hired

How Would a National Living Wage Standard Affect Hiring Practices?



Survey Question:

"Do you believe such a national policy would cause employers to hire ... better-skilled applicants, less-skilled applicants, no change in hiring practices?"

Better-Skilled Applicants

Percent

76%

Less Skilled Applicants

1%

No Change in Hiring Practices

23%

(N)

(324)

Technical Report

The 2000 Labor Economist Living Wage Survey was conducted in late winter and early spring, 2000. A list of 1132 economists was obtained from the American Economics Association who indicated their primary or secondary area of expertise was labor economics.

Survey packets, consisting of an introductory letter from the UNH Survey Center, questionnaire, and postage paid return envelope were mailed to all 1132 economists on the AEA list on February 11, 2000. Reminder postcards were mailed to all 1132 economists on March 10 and the field period for the survey was closed on April 7. Of the surveys mailed, 336 (30%) were returned completed, 3 were returned unanswered, and 8 were unable to be delivered.

Because the entire population of labor economists in the United States (defined as members of the American Economic Association who indicated their specialty was labor economics), there is no sampling error.

Response Dispositions

Disposition	Number	Percent
Completed Surveys	336	29.7%
Returned, not completed	3	0.3%
Unable to deliver	8	0.7%
Not returned	785	69.3%
Total	1132	100%

(so that an increase in the wage has only small effects on employment), employment loss will be modest and constitutes a reasonable policy tradeoff given the desirable effect on workers' earnings. Second, labor markets might be characterized by the non-competitive features we have just described. Then a reasonably set minimum wage can have little if any effect on employment. In this instance the minimum wage is unambiguously beneficial to low wage workers.

The crucial issue, then, is an empirical one. Is the minimum wage in existing markets associated with meaningful job loss? We turn to this issue next.

Recent Empirical Evidence on Employment Effects

There have been a number of careful literature reviews summarizing empirical findings concerning minimum wage effects. In a widely cited earlier review of the empirical evidence, Brown, Gilroy, and Kohen (1982) conclude that teen employment may fall modestly in response to minimum wages, but employment of adults is little changed. Brown (1988) provides an update and careful discussion that again emphasizes that any effects on employment are likely to show up in employment of teens, a group with relatively low wages. Card and Krueger (1995) provide a further literature review, including a critical analysis of previous research, and present their own extensive exploration of the wide state variation in minimum wages found in the late 1980's and early 1990's. Their work suggests that there may be no negative employment effects even for teenagers.⁶

Beyond the literature reviewed in these earlier works, there are three new studies that are clearly relevant to our discussion. Two of these papers are germane because they explicitly examine the employment effects of the most recent changes to the minimum wage in the United States. These papers can therefore be expected to serve as a useful guide to understanding the likely effect of a further modest increase to the minimum wage. A third new study examines the British experience with minimum wages.

Employment in Fast Food Restaurants. To determine the effect of minimum wages on employment, we would ideally like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other similar firms for which the minimum wage does not increase. The work of Card and Krueger (forthcoming) comes closest to doing this. In 1992, New Jersey imposed a higher minimum wage, and yet the neighboring state of Pennsylvania did not. And then in 1996 and 1997 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. Card and Krueger use Bureau of Labor Statistic's employer-reported ES-202 files from 1991 through 1997 to evaluate employment growth of fast food restaurants in New Jersey and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little (and possibly slightly positive) effect on employment.⁷

⁶ Lang and Kahn (1998) similarly study the effects of state differences in minimum wages on employment of food service workers in 1988-91 and find that employment effects are minimal (after introducing econometric corrections factoring affecting employment that are other than minimum wages). Neumark and Wascher (1992, 1994) do find evidence of small negative effects of employment for teenagers. Their estimated minimum wage elasticities are on the order of 0 to -0.2, meaning that a 10 percent increase in the minimum wage was associated with a reduction in teen employment of between 0 and 2 percent. Another paper that reports negative employment effects (in California's low wage retail trade sector in 1988) is Kim and Taylor (1994).

⁷ There is some concern that an earlier New Jersey study by Card and Krueger (1994) drew faulty inferences because it used data derived from telephone surveys rather than payroll records. This more recent work uses employment records that free from the kinds of data quality concerns expressed by critics of this earlier work.

big effect - small
big effect - small
small effect - small
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small effect - small

Small effect on teen employment

Our success in helping families leave welfare is tempered by the realization that many families are still dependent on public assistance. As time limits for TANF begin to bind, we must focus on how to best help those who have been unable to secure employment. Furthermore, that many of those who have left the welfare rolls are no better off financially than they were while receiving benefits. Investments in job skills, a continued strong economy, and policies that ensure an acceptable wage can all help these individuals succeed in the labor force. Finally, when the economy does begin to slow, we must be prepared to help those who lose their jobs. If former welfare recipients are among the last hired, they may be among the first laid-off and run the risk of returning to public assistance. These challenges are not insurmountable but require the commitment of government and the help of the private sector to reach workable solutions.

Reaching out to Underserved Communities

Providing opportunity and independence for American families sometimes requires more than a strong national economy and responsible welfare policy. Areas where poverty has become entrenched and the local economy is weak may need additional assistance. Some of the most intractable poverty is found in America's central cities and rural areas. Because these areas are home to large numbers of Americans—in 1999, 30 percent of the country's population lived in the central cities and 20 percent in rural areas⁶⁰—this situation is cause for great concern.

In 1967, when statistics for these areas were first recorded separately, the poverty rate for inner cities was 15.0 percent, compared with a nationwide rate of 14.2 percent. In contrast, poverty in rural areas was over 20 percent. By this measure the inner cities were nearly as well off as the rest of the country, but rural areas suffered from disproportionately high rates of poverty. Between 1967 and the early 1990s, however, the incidence of poverty shifted: conditions in the central cities worsened, and nonmetropolitan areas saw a slight improvement. By 1993 the proportion of inner-city residents living in poverty had reached an all-time high of 21.5 percent, and the poverty rate in rural areas had declined slightly to 17.2 percent—well above the national poverty rate of 15.1 percent in both cases. Since 1993, however, the situation has improved

Teenage Employment, 1995-1998. Neumark (1999) conducts a careful analysis of the effects of the October 1996 and September 1997 increases in the federal minimum wage using CPS data from 1995 through 1998. He exploits the fact that 11 states and the District of Columbia had at some point over this span a minimum wage that exceeded the federal minimum wage. This allowed Neumark evaluate the employment effect of minimum wage changes while at the same time controlling for year to year changes in the strength in the economy. The key result is that there was no estimated effect minimum wage increases on the employment of 16-19 year olds. (The effect on teenage employment was estimated to be positive, but not statistically significant.) The only evidence of any negative employment effects were for a particularly disadvantaged group, young workers who are no longer in school and who have low levels of education.⁸

The British Experience. As we have mentioned, Dickens, Machin, and Manning (1999) studied the British experience with minimum wages, 1975 to 1992, using a theoretical framework that includes some monopsony-like behavior. They indicate that they "...find strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment, the latter being a result that would be regarded as anomalous in a competitive model, but one that can easily be explained in our framework."

4. CONCLUDING REMARKS

[NOW WE NEED A WELL-CRAFTED CONCLUSION. The argument in favor of the minimum wage is an obvious one. A higher minimum wage means that many low wage workers will make larger contributions to their households' earnings. In many cases these contributions are important, because the minimum wage worker is adult, often a parent. In combination with the changes in the earned income tax credit (EITC), the most recent round of minimum wage increases had an important effect on earnings of working families. Between 1993 and 1998, families with two children a one worker who worked full time at the y with one minimum wage earner and two children rose by \$2,761.]

⁸ For example, for 20-24 year old workers with less than a high school education, the estimated effect of the minimum wage was not statistically different than zero. But when 16-19 year olds are added to this demographic group, there is a very small statistically significant negative employment of the minimum wage.

dramatically. In 1999, the poverty rate for central cities was 16.4 percent and that in rural areas stood at 14.3 percent. Yet these rates remain well above the national average of 11.8 percent.

The strong national economy and current policies to make work pay, discourage out-of-wedlock births, and improve schools in poor neighborhoods can be expected to provide some relief. But given the persistently high poverty rates in these areas, additional strategies may be required. To reach out to residents of these areas, the Administration has enacted a series of programs that directly target communities.

Central cities: Central cities are often more attractive to low-income workers than outlying suburbs. Inner-city residents have ready access to public transportation and shopping, and city governments often provide more generous support services than governments in other locales.⁶¹ But cities often have one key drawback: limited job opportunities. Recent research shows that most job creation today is taking place in the suburbs. One study by the Department of Housing and Urban Development (HUD) found that from 1992 to 1997 job growth was slower in the cities than in the suburbs and that the job mix in cities is increasingly shifting toward high-technology industries, which works against low-skilled workers.⁶²

The difficulty central-city residents face in finding employment is further heightened by problems with discrimination and transportation. Low-income workers, and welfare recipients in particular, are unlikely to own cars and must rely on public transportation. Yet a recent study found that nearly half of all low-skilled jobs in the suburbs are not accessible by public transportation.⁶³ Compounding this situation is the fact that minority workers in the central city still face discrimination in housing and employment markets. A recent study found that minorities have difficulty renting and purchasing housing in the suburbs and are less likely to be hired by the white-owned firms that predominate there.⁶⁴ The cost of housing in the suburbs may also make it difficult to move to homes near suburban jobs.

From a policy perspective, several approaches are available to address the mismatch between where low-skilled workers live and where they can find work. The first—and perhaps most difficult—is to rebuild the economies of our central cities. The second involves seeking ways to overcome the transportation hurdles that central-city commuters face. The third approach is to

With this last result in mind, consider the effect on firm behavior of a law that sets the wage just slightly higher than the wage that the monopsonist would otherwise have chosen. This higher wage now allows the firm to attract additional workers. And we have already seen that the value added to the firm of these additional workers exceeds the wage, so the firm will indeed want to hire these workers. The minimum wage in this case and increase employment!

All this said, economists have generally viewed the monopsony model as “the exception that proves the rule.” As Stigler himself indicated, there are virtually no low wage labor markets in which a single employer exerts the kind of wage-setting power described in the monopsony model.

Recently, though, economists have begun to seriously explore the possibility that the logic of the monopsony model might in fact be relevant in labor markets where there are many employers. The central idea is that even in markets with many employers, some employers may retain some wage-setting power. For instance, a fast food restaurant might be one of several low-wage employers in a neighborhood, but nonetheless have a fair amount of flexibility in setting the wage. When the firm has an opening, the manager must decide whether to simply advertise the job at its existing wage (knowing that the firm will run short staffed while waiting for a qualified applicants) or to increase the wage so as to insure that positions are filled quickly.

A growing literature explores the effect of the minimum wage in markets like these. Bhaskar and To (1999), for example, explore a model of “monopolistic competition” in which firms have some power to set wages, but in which firms can freely entry or exit the market in response to profit incentives. The authors find that in this setting the minimum wage has an ambiguous effect on employment. Similarly, Dickens, Machin, and Manning (1999) study a general theoretical model in which employers have some degree of monopsony power, and in which the minimum wage thus holds the potential to increase employment. Their research has the advantage that it includes empirical evidence, discussed below, on the importance of monopsonistic behavior in the labor market.

An alternative approach that exploits monopsony-type logic recognizes that the quality of workers hired, or the level of work effort by employees, might be related to the firm’s wage. Papers along these lines by Manning (1995) and Rebitzer and Taylor (1995) demonstrate that the employment effect of a minimum wage is ambiguous in such a setting. Additional models that have monopsony-like features are discussed in Chapter 11 of Card and Krueger (1999).⁵

The principal conclusion we draw from the literature is surely *not* that minimum wage policy holds no potential for reducing employment. In every credible labor market model a minimum wage set sufficiently high costs jobs. The recent theoretical literature does provide coherent arguments as to why a minimum wage set at a reasonable level (relative to the market rate) may have very little effect on employment.

In this light, then, minimum wage policy can be seen two ways. First, it may be that labor markets are indeed roughly competitive, so that that conventional theory provides the appropriate guide to employment effects of the minimum wage. Then the issue is just how large the negative employment effects are. If the demand curve for labor is highly inelastic in the relevant range

⁵ Monopsony-like models also find formal expression in search models like Burdett and Mortensen (1998) and Lang and Kahn (1998). An entirely different innovative exploration of minimum wages is reflected by the recent theoretical work of Acemaglou and Pischke (1999). These authors find that a minimum wage can increase incentives for firms to invest in some types of worker training.

legislative changes that would make it easier for States to pass along a portion of child support payments to custodial parents receiving assistance. This change would give parents an incentive to cooperate with the system. Some States, such as Wisconsin, are already experimenting with this type of policy, with some success. Results show that noncustodial parents are more willing to pay child support when they know that at least some of the money will benefit their child. Ultimately more wide-spread use of this policy should increase collections of child support payments.

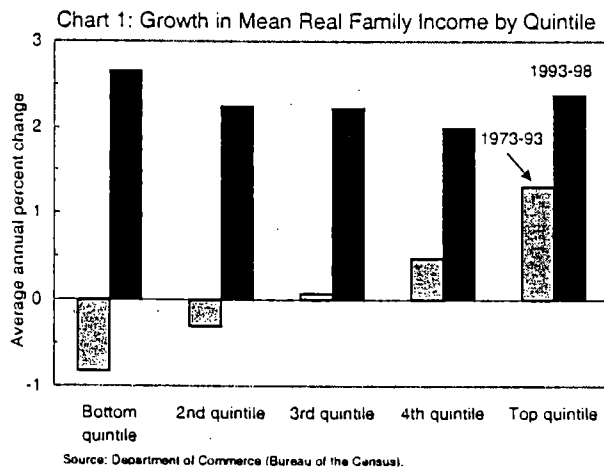
The Administration has also put in place policies that reach out to low-income noncustodial parents. Some \$125 million has been requested for grants designed to help fathers find and keep work {is this correct?} ("Fathers Work" grants). Responsible fatherhood initiatives funded through the Department of Labor complement this policy, helping noncustodial parents not only find work and pay child support but also reconnect with their children.

Access to health insurance. Historically, individuals and families leaving the welfare rolls have lost their Medicaid coverage as they did so. During the 1980s a series of Medicaid expansions and the introduction of Transitional Medicaid Assistance began providing health insurance benefits to former welfare recipients and low-income families, easing the transition to work. Prior to the 1996 welfare reform a Federal mandate required that states cover all pregnant women and allowed some children not receiving welfare to enroll in Medicaid. This group included children under the age of 6 in families with incomes below 133 percent of the poverty line, and children between the ages of 6 and 19 in families with incomes below 100 percent of the poverty line. Many States opted for even broader coverage, setting higher income thresholds and covering children of all ages. Adults could obtain Medicaid for up to 12 months under the Transitional Medicaid Assistance program or through State programs for the medically needy. The 1996 legislation expanded Medicaid coverage to single parent and some two-parent families, and families leaving welfare provided their incomes were sufficiently low. In 1997 the State Children's Health Insurance Program (SCHIP) was created to target all children in low-income families. The SCHIP program is discussed in detail later in the chapter.

1. INTRODUCTION

The American economy is in the midst of the longest economic expansion in history. Since January 1993, the economy has created nearly 21 million new jobs. The unemployment rate in February 2000 was 4.1 percent, near its lowest level in three decades. The overall performance of the economy has only grown stronger over time. In the last four years, labor productivity has grown at a 2.9 percent annual rate and GDP has grown at a 4.4 percent annual rate. At the same time, the underlying core inflation rate in 1999 was 1.9 percent—the lowest rate since 1965.

In contrast to the previous twenty years, the strong economy of the last seven years has contributed to shared growth across all income groups and substantial poverty reduction. As indicated in Chart 1, incomes have grown nearly as strongly at the bottom as at the top of the



income distribution, ending a decades long increase in inequality. The poverty rate has fallen to 12.7 percent, the lowest level since 1979. The strong labor market has been beneficial to people across the economic and demographic spectrum. In 1999, the unemployment rates for African Americans and Hispanics fell to the lowest levels ever recorded.

Strong growth is necessary but not sufficient to produce sustained income gains and poverty reduction. Also important are policies that insure that all workers are

adequately rewarded for their work. The Clinton Administration has consistently sought to make work pay through a range of policies, including expanding the Earned Income Tax Credit in 1993, reforming welfare in order to increase work incentives, and increasing investments in child care for working parents. And an additional key element was the 1996-97 increase in the minimum wage. These policies interact in a beneficial way for low-income families.

This report examines the role that the minimum wage plays in increasing the reward to work and boosting incomes for workers at the bottom of the earnings distribution. The report also examines the recent evidence about the effect of the minimum wage on employment.

2. BACKGROUND ON THE MINIMUM WAGE

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act of 1938 (FLSA). Since its inception, the federal minimum wage has been increased 19 times, and the FLSA has been amended numerous times to expand the workers covered by the minimum wage provision. In recent years, about two thirds of wage and salary workers have been covered by the FLSA minimum wage. (Workers who are exempt most often are in executive, administrative, and professional occupations.)

*growth moderated in
2nd half of 2000
and may be at slower
future pace*

*Lowell
3273*

[note: our graph uses CPI-U-RS for some and CPI-U for others, the NEC paper uses CPI-U; should we adjust our deflator so that we are consistent with previously published numbers?]

Declining value of the minimum wage

The real value of the minimum wage has fluctuated as inflation erodes the real value of the and increases in the minimum restore some value. (See chart 2.) In 1968, the real value of the minimum wage attained the maximum of \$7.84, in 2000 dollars. Since then, the real value has declined, as nominal increases have been more than offset by inflation. During the 1980s, the real value of the minimum wage fell from \$6.48 to \$4.65. Increases in the early and mid 1990s have mostly offset the inflation effects during the 1990s. Still, the real value of the minimum wage fell by 30 cents since the most recent nominal increase took effect in 1997.

Insert new chart 2

The minimum wage provides a meager living at best. For example, an individual who worked full-time¹ at the minimum wage in 2000 would have an income of \$10,300, which only reaches 75% of the poverty level for a family of three, and erosion from 77% in 1997. (See chart 3.) This income is also only 21% of the median family income in 1999—down from 23% in 1997.

Insert new chart 3

The effects of the Earned Income Tax Credit

The income of some low-wage workers is also supplemented by the Earned Income Tax Credit (EITC). Operating through the income tax system, the EITC provides a wage subsidy for qualified low-income workers. The amount of the subsidy depends on how much the family earns and on whether the family has zero, one, or two or more children. In 2000, families with two or more children received a subsidy of 40 cents for every dollar of earned income up to \$9,700, for a maximum credit of \$3,880. This tax credit is refundable, so that even families who pay little or no income tax can benefit fully from the tax provision. Rather than falling to zero when earnings surpass \$9,700, the credit remains at \$3,880 until earnings reach \$12,700 and then gradually declines. For two-child families it phases out completely when earned income reaches \$31,152. Families with no children and one child are eligible for lower subsidies.

The EITC significantly affects the income of qualified individuals. For example, a family with two children and one full-time worker paid the minimum wage would be eligible for the full subsidy of \$3880. This additional income—an increase of 40%—would be enough to lift that 3 person family just over the poverty line, and up to 28% of the median family income. (See chart 3.)

However, the EITC does not subsidize all minimum wage earners—only about 30%?? of minimum wage earners would receive this maximum subsidy. The subsidy is lower for families with one or no children. Households with one child receive a 34% subsidy of wages to a maximum of \$2,353; households with no children are only eligible for a 7.65% subsidy to a maximum of \$353. In addition, people who work part-time have a lower base and thus a smaller subsidy. Further, families that have two full-time minimum wage workers would receive smaller subsidies, as the EITC subsidy is reduced as incomes rise above \$12,700 in household income. The ability of the EITC to increase earnings in low-income households is restricted because it

¹ For the following illustrations, “full-time” is assumed to be 2000 hours in a calendar year.

requires the wage earner to claim the credit on income tax returns, which reduces participation; only xx% of eligible employees claimed the credit. The minimum wage also provides increased income throughout the year, rather than a lump sum payment after tax returns are filed, a benefit for those who require the income to meet immediate needs. (While the EITC can be paid throughout the year, only xx% of those who receive the EITC take advance EITC payments.) Finally, if the minimum wage is raised, people who are below the threshold for maximum EITC payments will have higher base for the subsidy and receive additional EITC benefits. Thus, increasing the minimum wage is an important and effective approach to increasing the income of low-wage earners.

3. EMPLOYMENT EFFECTS OF INCREASING THE MINIMUM WAGE

In the last twenty five years, there have been three legislated increases in the minimum wage. From 1977 to 1981, it was increased from \$2.30 to \$3.35; from 1989 to 1992, it was increased from \$3.35 to \$4.25; and from 1995 to 1997, it was increased from \$4.25 to \$5.15. Thus, the annual increase was from 25cents to 45cents a year, but with larger increases over time because the rising inflation rate has eroded the value of the increase. In current dollars (xx 2000) these increases are equal to annual minimum wage increases of 49 to 60 cents.

Economic theory alone cannot determine the effects of the wage increases. Employers who experience wage increases may be inclined to reduce employment due to rising wage costs. However, some employers may respond to a moderately higher minimum wage by expanding employment or leaving it unchanged. Specifically, higher wages can help firms attract better workers, motivate them to work harder, and retain them for longer periods. (While firms always have the option of increasing their pay rate, some managers leave wages unchanged because of reluctance to increase average labor costs.) At least five papers—recently published in peer-reviewed economics journals—show that a moderate minimum wage can have a positive effect on employment.² In general, then, an increase in the minimum wage has an ambiguous effect on employment. The only way to determine the effect in practice is to look at the empirical evidence.

Thus, given past annual increases in the minimum wage of about 50 cents or so in current dollars, historical data can be used to examine the employment effects of increases in this range. This is done for different time period and using different methods.

Effects on Employment in 1996-97

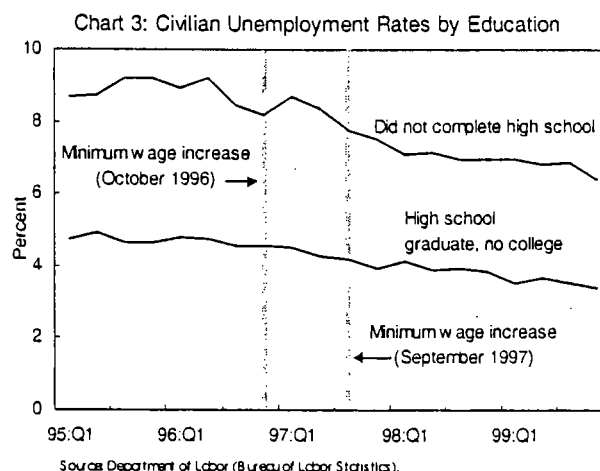
In 1996-97 the minimum wage was raised ^{by 40¢ annual} in two increments of ~~45 cents each~~. Subsequently, the American economy—and labor markets in particular—have continued to perform very strongly. Between September 1996 and February 2000, 10.2 million jobs were created—an average of 248,000 per month, even stronger job growth than in the previous 2 years. In retail trade, which

² See Bhaskar and To (1999), Dickens, Machin, and Manning (1999), Lang and Kahn (1998), Manning (1995), and Rebitzer and Taylor (1995). Additional discussion of these models are found in Chapter 11 of Card and Krueger (1995).

has a large concentration of minimum wage workers, there were 1.4 million new jobs. Over this same period the overall unemployment rate fell from 5.2 percent to 4.1 percent.

More importantly, the labor markets that have the highest numbers of low-wage workers also experienced no discernable negative effects from the minimum wage increases. Just the opposite occurred—conditions in these markets continued to improve. For example, adults (age 25 and above) with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally declined for both high school graduates with no college and those with less than a high school education. Similarly, over the past

five years the employment to population ratio generally held steady or increased for both groups of adults, as well as for teenage workers, and for African American teens in particular.



Effects on Employment in 1977-81 and 1989-92

The earlier two increases in the minimum wage, in 1977 to 1981 and 1989 to 1992, were increases of about the same annual magnitude as the 1996-97 increases. However, both of these earlier increases coincided with economic recessions and thus rising unemployment rates. Thus, the real question is, what would the employment effects of the minimum wage be if we could do an experiment—increase the wage, but have no other changes in the economy? One would like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other similar firms for which the minimum wage does not increase. Recent empirical research has attempted to do the econometric analysis that approximates this experiment.

Econometric Evidence on Employment Effects

Two researchers, David Card and Alan Krueger (1995), examine the impact of a minimum wage increase of about \$1.00 in the early 1990s. In 1992, New Jersey imposed a higher minimum wage of xx, and the neighboring state of Pennsylvania did not, keeping the wage at xx. And then in 1996 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. These two episodes provide an experiment that can be used to infer the effects of a minimum wage increase on employment. Card and Krueger use the BLS's employer-reported payroll files from 1991 through 1997 to evaluate employment growth of fast food restaurants in New Jersey

and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little negative (and possibly slightly positive) effect on employment.³

Thus, their work shows that there were no negative employment effects of moderate wage increases, even for teenagers, the group for whom any disemployment effects should be most apparent because they are the least skilled. Similarly, they provide a critical analysis of previous research, and present their own extensive exploration of the wide variation in minimum wages across states found in the late 1980s and early 1990s. More recent studies confirm their initial results.

However, this experiment of increasing the minimum wage and making no other changes, is hard to mimic in the real world where many changes take place simultaneously, and thus there are a variety of different estimates of the employment effects of the minimum wage, based on different data and different empirical methods. Dickens, Machin, and Manning (1999) studied the British experience with minimum wages. They found "...strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment."

Most studies no effect or very weak neg effects

3. WAGE EFFECTS OF THE MINIMUM WAGE

The \$0.90 increase in the minimum wage in 1996 and 1997 is estimated to have benefited almost 10 million American workers.⁴ This section examines the impact of this increase on the distribution of wages.

Recent increases in the minimum wage in the U.S. have improved the distribution of wages at the low end of the distribution. Fortin and Lemieux (1997) demonstrate the importance of the minimum wage in boosting wages at the low end, and reducing wage inequality. They show that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women. Card and Krueger (1995) conclude that the 1990-91 minimum wage increase reversed about 30 percent of the increase in wage inequality that occurred during the previous decade.

The effect of the recent minimum wage increase—in October 1996 and September 1997—on the nominal wage distribution is clearly evident in wage data. Statistics tabulated from the Current Population Survey (CPS), show that in the first two quarters of 1996, when the federal minimum wage was \$4.25, about 10 percent of all hourly wage workers earned less than \$5.00.⁵ The minimum wage increase (to \$5.15) clearly increased wages in the low end of the distribution; by

³ While some critics of Card and Krueger expressed concern about their data collection, the most recent research uses BLS employment records and finds basically the same results.

⁴ See Bernstein and Schmitt (1998).

⁵ The analysis presented in this paper excludes salaried and other non-hourly workers. Research has shown, however, that a relatively smaller number and share of salaried workers and others not paid by the hour have earnings that, when translated into hourly rates, are at or below the minimum wage. BLS does not routinely estimate hourly earnings for nonhourly workers because of data concerns that arise in producing these estimates. See Haughen and Mellor (1990) for further information.

the first two quarters of 1998, the fraction of workers earning less than \$5.00 declined to 2 percent.

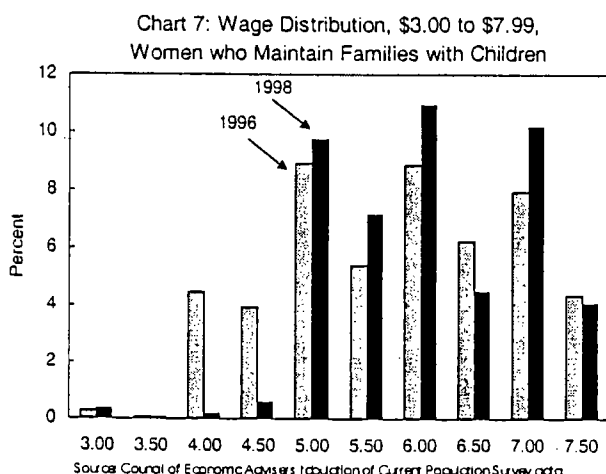


Chart 7 illustrates the effect of the 1996-97 minimum wage increases on the low end of the wage distribution (\$3.00 to \$7.99) for just one demographic group of interest, women who maintain families and have at least one child present in the household.⁶ For 1996, the distribution of wages shows that a relatively small share of workers with hourly wages earn between \$3.00 and \$3.99.⁷ In contrast, a substantial fraction earned between \$4.00 and \$4.49. (The chart shows the distribution by 50-cent increments.) This jump, of course, reflects the clustering of workers whose wages were at or near the minimum wage.

The comparable distribution for 1998 indicates a shift that was clearly due to the change in minimum wage policy. In the first two quarters of 1996, about 9 percent of these women earned less than \$5.00. By the first two quarters of 1998, this fraction declined to 2 percent.

At the same time, an increasing share of workers earned wages above \$6 and \$7, suggestive evidence that the increase in the minimum wage had spillover benefits for workers above the minimum wage. Such spillover effects have been documented more formally in research by Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994).

4. RAISING THE MINIMUM WAGE: WHO IS DIRECTLY AFFECTED?

Increases in the minimum wage of the orders of magnitude similar to those of past increases would have a substantial effect on the incomes of low-wage workers. The minimum wage increase passed in 1995 raised the Federal minimum wage by \$0.90 in nominal terms, or approximately \$0.98 in 2001 dollars. A similar increase of \$1 an hour in the current minimum wage would raise the annual earnings of a full-time minimum-wage worker by about \$2,000 a year, assuming to change in employment status or hours worked. When measured in real terms, previous increases in the minimum wage have been larger than that instituted by the 1995 legislation. The round of increases legislated in 1977 was totaled \$1.05 or \$2.38 in current dollars and the 1989 increases were equal to \$1.16 in 2001 dollars. A simple average of the 1995, 1989

⁶ A family maintained by a woman is one in which the householder (person in whose name the housing unit is rented or owned) is female, and no spouse is present. Here we examine such households when a child under 18 is present.

⁷ The presence of workers with reported wages below the minimum wage does not necessarily indicate violations of the Fair Labor Standards Act. There are several reasons why the reported wage for a worker may be below the Federal minimum. First, certain workers are exempt from the minimum wage provisions of the law, including workers for whom tips might serve to supplement the hourly wages received. Second, there may be a misreporting or rounding in the survey responses. When the minimum wage is \$5.15, for example, a large number of workers report a wage of exactly \$5.00.

and 1977 changes corresponds to a current increase of approximately \$1.50 in the minimum wage. A change of this size would increase the yearly income of a full-time minimum-wage worker by \$3000. A recent study found that low-income families spend an average of \$300 per month on groceries and about \$400 on rent. Thus a \$2000 increase in earnings would provide enough additional income to pay for nearly 7 months of groceries or 5 months of rent; a \$3000 increase would provide for 10 months of groceries or 6 months of rent. These increases in the minimum wage can therefore have substantial effects on the well-being of low-income workers and their families.

Characteristics of Minimum Wage Workers in 2000

The majority of benefits of a minimum wage increase would accrue to those currently earning wages at, or just above the minimum wage.⁸ The characteristics of these workers is available from unpublished tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the CPS. In the third quarter of 2000, 72.8 million workers were paid at hourly rates, representing about xx percent of wage and salary workers. Approximately 828,000 workers earn a wage equal to the current \$5.15 Federal minimum and an additional 2.3 million workers earn wages below the federal minimum. Thus, 4.4 percent of hourly workers earned wages at or below the Federal minimum wage.⁹ This fraction is down slightly from 4.6 percent in 1999.

Selected demographic and economic characteristics for minimum wage workers are presented in Table 1 for the third quarter of 2000. The statistics indicate that nearly 60 percent of workers earning \$5.15 per hour were age 20 or older and 41 percent of these workers are over the age of 25. Sixty-one percent of minimum wage workers are women. Finally, 1.4 percent of women who are paid hourly wages are employed at the minimum wage while the figure is 0.8 percent for men. There are also differences in wage rates by race and ethnicity: 1.3 percent of African American hourly workers earned the minimum wage compared to 1.1 of whites and Hispanics.

How Many Workers would be Affected by an Increase in the Minimum Wage?

Using the CPS data described above, it is possible to identify the number and characteristics of workers with wage rates slightly above the current minimum wage and who would therefore also likely benefit from an increase in the minimum wage. In keeping with the magnitudes of past increases in the minimum wage, we examine the characteristics of those earning within \$1 of the current minimum (\$5.16-\$6.14) and those earning between \$1 and \$1.5 above the current minimum (\$6.15-\$6.64). Assuming no change in employment, the former group is likely to see an increases in wages if the minimum wage is increased by \$1 or more, and the latter, if an increase is of at least \$1.50. Table 2 presents the number of individuals who currently have an hourly wage within each of these categories and the characteristics of those workers. To highlight the results presented in the table:

- There are approximately 6.9 million workers within \$1 of the minimum wage—nearly 10 percent of all hourly workers. An additional 3.4 million workers are within \$1 and \$1.50 of

⁸ An increase in the minimum wage could have spill-over effects if employers increase the wages of those earning above the new minimum to maintain similar levels of relative wages..

⁹ These are workers earning the legal sub-minimum training wage or the minimum wage applicable for tipped employees, as well as those illegally paid less than minimum wage.

the minimum wage, or 4.6 percent of all hourly employees. An increase of \$1.50 could therefore provide direct benefits to nearly 8 percent of hourly employees.

- 68 percent of those with wages within \$1 of the minimum wage are adults age 20 or older as are xx percent of those with wages between \$1.0 and \$1.5.
- About 60 percent of the first group of workers are women as are xx percent of the second.
- 16 percent of those earning between \$5.16 and \$6.14 are African American and 20 percent are Hispanic. The figures for those earning between \$6.15 and \$6.64 are xx.
- Among workers in the \$5.15-\$6.14 range, approximately 34 percent are a household head or a spouse who contributes to family income. Among those in the \$6.15-\$6.64 interval the fraction is xx percent.

Other studies have examined the potential beneficiaries of an increase in the minimum wage, focusing on family and income characteristics. Some highlights from these studies are:

- Parents with children under 18 years old comprise almost 33 percent of those potentially affected. (Bernstein, Hartmann, and Schmitt, 1999).
- Over 50 percent of the proposed gains would go to households with incomes less than \$25,000 per year. (Bernstein, Hartmann, and Schmitt, 1999).
- 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 19 percent to families with income below 300 percent of the poverty level. (Burkhauser, 1999).

Table 1. Employed Wage and Salary Workers Paid Hourly Rates with Earnings At or Below Minimum Wage, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who earn \$ 5.15 or less
	Total paid hourly rates	Paid \$ 5.15 or less	Total paid hourly rates	Paid \$ 5.15 or less	
Total, 16 years and over	72,306	3,340	100.0	100.0	4.6
AGE					
16 to 19 years	6,600	1,006	9.1	30.1	15.2
20 and over	65,706	2,334	90.9	69.9	3.6
SEX					
Men, 16 years and over	36,073	1,214	49.9	36.3	3.4
Women, 16 years and over	36,233	2,126	50.1	63.7	5.9
RACE AND HISPANIC ORIGIN					
White	58,999	2,698	81.6	80.8	4.6
African American	10,126	515	14.0	15.4	5.1
Hispanic origin	9,402	513	13.0	15.4	5.5
FULL- AND PART-TIME STATUS					
Full-time workers	54,931	1,320	76.0	39.5	2.4
Part-time workers	17,227	2,010	23.8	60.2	11.7
FAMILY RELATIONSHIP					
Husbands	17,609	242	24.4	7.2	1.4
Wives	16,996	622	23.5	18.6	3.7
Women who maintain families	5,395	288	7.5	8.6	5.3
Men who maintain families	1,815	50	2.5	1.5	2.8
Other persons	30,491	2,082	42	62	28

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

Table 2: Distribution of Wage and Salary Workers Paid Hourly Rates, 1999

Characteristic	Number (in thousands)		Percent distribution		Percent of workers in demographic group who falls in wage category	
	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14
Total, 16 years and over	10,093	8,370	100.0	100.0	14.0	11.6
AGE						
16 to 19	3,133	1,482	31.0	17.7	47.5	22.5
20 and over	6,960	6,888	69.0	82.3	10.6	10.5
SEX						
Men, 16 years and over	4,076	3,405	40.4	40.7	11.3	9.4
Women, 16 years and over	6,018	4,965	59.6	59.3	16.6	13.7
RACE AND HISPANIC ORIGIN						
White	8,027	6,668	79.5	79.7	13.6	11.3
African American	1,602	1,336	15.9	16.0	15.8	13.2
Hispanic	1,989	1,447	19.7	17.3	21.2	15.4
FULL- AND PART-TIME STATUS						
Full-time workers	4,563	5,301	45.2	63.3	8.3	9.7
Part-time workers	5,512	3,048	54.6	36.4	32.0	17.7
FAMILY RELATIONSHIP						
Husbands	851	990	8.4	11.8	4.8	5.6
Wives	1,821	1,962	18.0	23.4	10.7	11.5
Women who maintain families	855	807	8.5	9.6	15.8	15.0
Men who maintain families	171	167	1.7	2.0	9.4	9.2
Other persons	6,396	4,445	63	53	84	58

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

The effects of an increase in the minimum wage will differ across states. As of January 1, 2001, 11 states had minimum wages that were above the Federal level. In these states an increase in the Federal minimum would have less of an effect. In California, for example, the current state minimum wage is \$6.25, \$1.10 above the Federal minimum wage. The California minimum wage is scheduled to increase further to \$6.75 on January 1, 2002. Minimum wage workers in California would therefore be unaffected by a \$1 an hour increase in the Federal minimum wage. Appendix A presents the minimum wages by state.

Recent Successes and Remaining Challenges

The current economic expansion has provided benefits to many Americans and low-income workers have shared in the gains (table 3). In 1994, the minimum wage was just \$4.25 an hour and 6.2 percent of all hourly workers earned a wage at or below this level. The fraction of workers with wages at or below the Federal minimum wage (now \$5.15) has since fallen to 4.4 percent in the third quarter of 2000. When looking at the absolute number of workers in various categories the changes are often astounding. In 1994, 1,241,000 women, women earned the minimum wage and this number fell to 505,000 in the most recent data, while at the same time absolute number of women who were employed in jobs paying hourly wages rose. For men the decline in the number earning the minimum wage has been from 891,000 in 1994 to 322,000 currently. Improvements have also been evident across racial and ethnic lines. The number of white workers earning the minimum wage fell during these years from 1.66 million to 670,000. For African Americans the numbers were 356,000 and 125,000, and for Hispanics, 401,000 to 111,000.

The strong economy has likely played an important role in these improvements. Focusing on the most recent time period, large gains were observed between 1999 and 2000, a period during which the minimum wage was not increased, but wages rose for low-income workers. The fraction of workers with wages at or below the Federal minimum fell from 4.6 percent of all hourly workers in 1999 to 4.3 percent in the third quarter of 2000. The number of women employed at minimum wage jobs fell from 700,000 to 505,000 and the number of men from 446,000 to 322,000. For whites the decline in the number of minimum wage workers was from 1.15 million to 670,000, for African Americans it was from 217,000 to 125,000 and for Hispanics, from 166,000 to 111,000.

However, despite years of economic growth and the success of many workers in attaining higher wages, many are still employed at jobs offering only minimum wage. For these workers, and others with wages only slightly above the minimum, earnings are insufficient to move a family out of poverty. For a worker earning \$5.15 an hour in 2000 and working 2000 hours, annual earnings are just \$10,300, well below the poverty line for a family of four. Furthermore, relative to the population of minimum wage workers existing after the last minimum wage increase in 1997, the current population is more likely to be supporting a family and more likely to be African American. It is these workers and their families who could benefit substantially from increases in the minimum wage.

4. CONCLUDING REMARKS

The economic expansion and economic policies of the last eight years have raised the wage levels of many individuals who are at the low end of the wage scale. Even the last year alone accounts for remarkable improvements—the number of individuals earning at or below the minimum wage has declined from xx in 1999 to xx in 2000 (quarter three?). However, two concerns remain—the value of the minimum wage has eroded over time, and many individuals remain at or below the minimum despite the economic expansion.

The evidence suggests that moderate increases in the minimum wage can provide meaningful additional earnings for many of America's most hard-pressed working families, and thus can lower the rate of poverty in these households. The erosion of the real value of the minimum wage probably increased wage inequality by about 25 to 30 percent during the periods of rising inequality. The current minimum wage is only xx percent of the average median wage, and has declined steadily over time. Many women have now left the welfare rolls—the number of women on welfare has declined by 44 percent since 1996—and these women are seeking meaningful employment at wages that can sustain their families.

A moderate minimum wage increase that is instituted now would be put in place when the unemployment rate is extraordinarily low, suggesting that these wage increases would be passed directly to employees. The current unemployment rate, at 4.x percent, is at its lowest level since the 1960s—since then, all minimum wage increases have been instituted during periods of higher rates of unemployment. Thus, employment losses from moderate wage increases at this time should be minimal or nonexistent. Minimum wage increases should have the greatest income enhancement at this time of low unemployment rates.

Table 1

	Number of Workers (in thousands)			Percent distribution		
	Total Paid hourly rates	Paid \$5.15	Paid \$5.15 or less	Total paid hourly rates	Paid \$5.15	Paid \$5.15 or less
Total, 16 years and over	72777	828	2569	100.00	100.00	100.00
AGE						
16 to 19	7134	351	838	9.80	42.39	32.62
20 and over	65643	477	1733	90.20	57.61	67.46
SEX						
Men, 16 years and over	36488	322	951	50.14	38.94	0.37
Women, 16 years and over	36289	505	1619	49.86	61.06	0.63
RACE						
White	59509	670	2122	0.75	73.95	0.78
African American	9979	125	334	0.13	13.80	0.12
Hispanic	9838	111	278	0.12	12.25	0.10
FULL- AND PART-TIME STATUS						
Full-time workers	56964	286	1111	78.45	34.62	0.44
Part-time workers	15646	540	1439	21.55	65.38	0.56
FAMILY RELATIONSHIP						
Husbands	17078	76	170	23.47	9.19	0.06
Wives	16773	133	491	23.05	16.08	0.18
Women who maintain families	5467	83	229	7.51	10.04	0.08
Men who maintain families	1940	10	31	2.67	1.21	0.01
Other persons	31518	525	1840	43.31	63.48	0.67

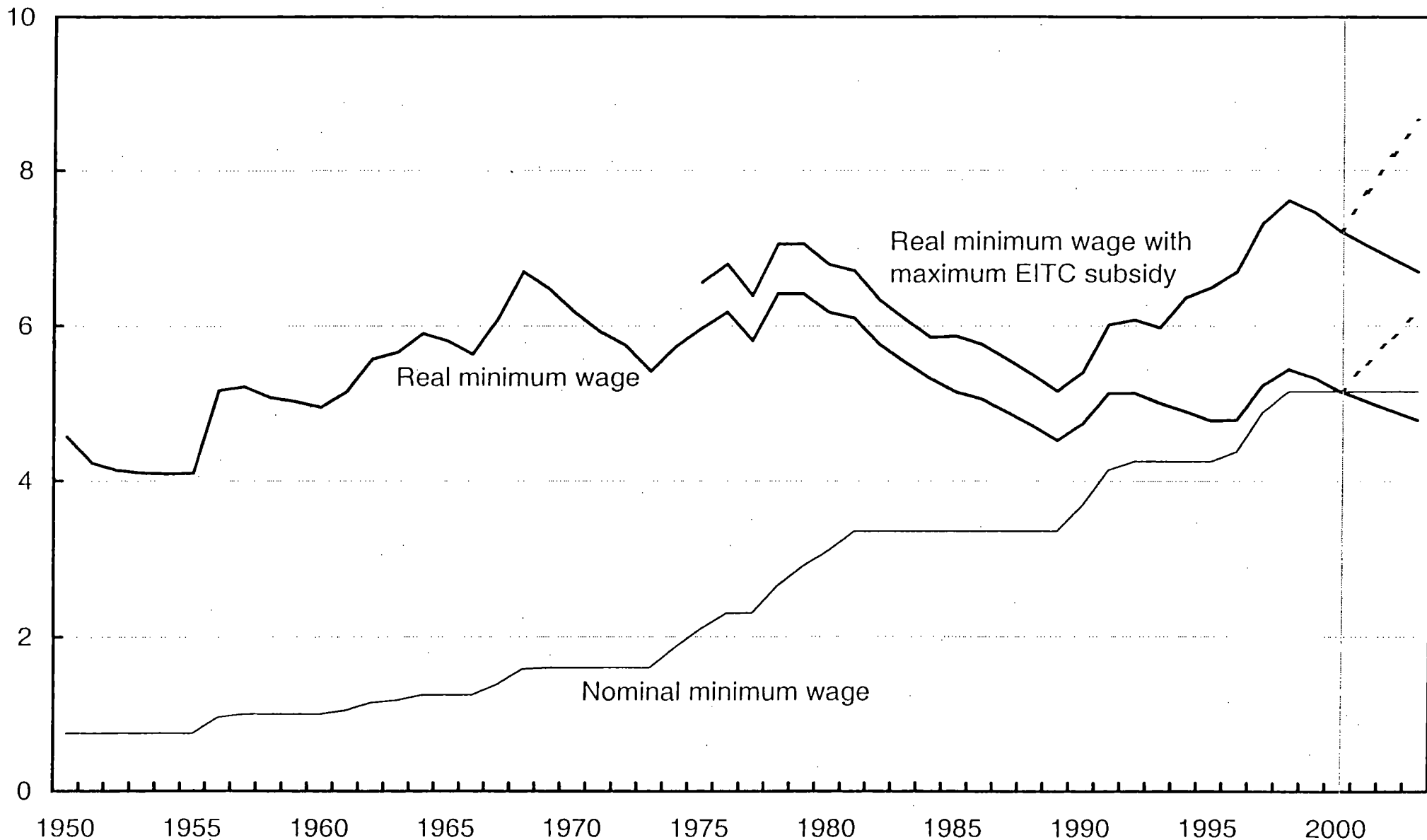
Source: BLS Table 14 Distribution of wage and salary workers paid hourly rates, by selected characteristics, third quarter 2000 averages, not seasonally adjusted

Table 2

	Number (in thousands)		Percent of workers in demographic group who fall into wage category			
	\$5.15-6.14	\$6.15-7.14	\$5.15-6.14	\$6.15-7.14	\$5.15-6.14	\$6.15-7.14
Total, 16 years and over	6,914	8,357			0.10	0.11
16 to 19	2,236	1,861	0.32	0.22	0.31	0.26
20 and over	4,678	6,496	0.68	0.78	0.07	0.10
Men, 16 years and over	2,842	3,410	0.41	0.41	0.08	0.09
Women, 16 years and over	4,072	4,948	0.59	0.59	0.11	0.14
White	5,584	6,676	0.69	0.71	0.09	0.11
Black	1,033	1,305	0.13	0.14	0.10	0.13
Hispanic	1,499	1,429	0.18	0.15	0.15	0.15
Full-time workers	3,365	5,184	0.49	0.62	0.06	0.09
Part-time workers	3,541	3,154	0.51	0.38	0.23	0.20
Husbands	628	879	0.09	0.07	0.04	0.05
Wives	1,163	1,796	0.17	0.14	0.07	0.11
Women who maintain families	532	752	0.08	0.06	0.10	0.14
Men who maintain families	102	209	0.01	0.02	0.05	0.11
Other persons in families:						
Men	1,579	6,313	0.23	0.48	0.17	0.70
Women	1,714	1,569	0.25	0.12	0.23	0.21
All other men	535	685	0.08	0.05	0.06	0.08
All other women	663	830	0.10	0.06	0.10	0.12

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

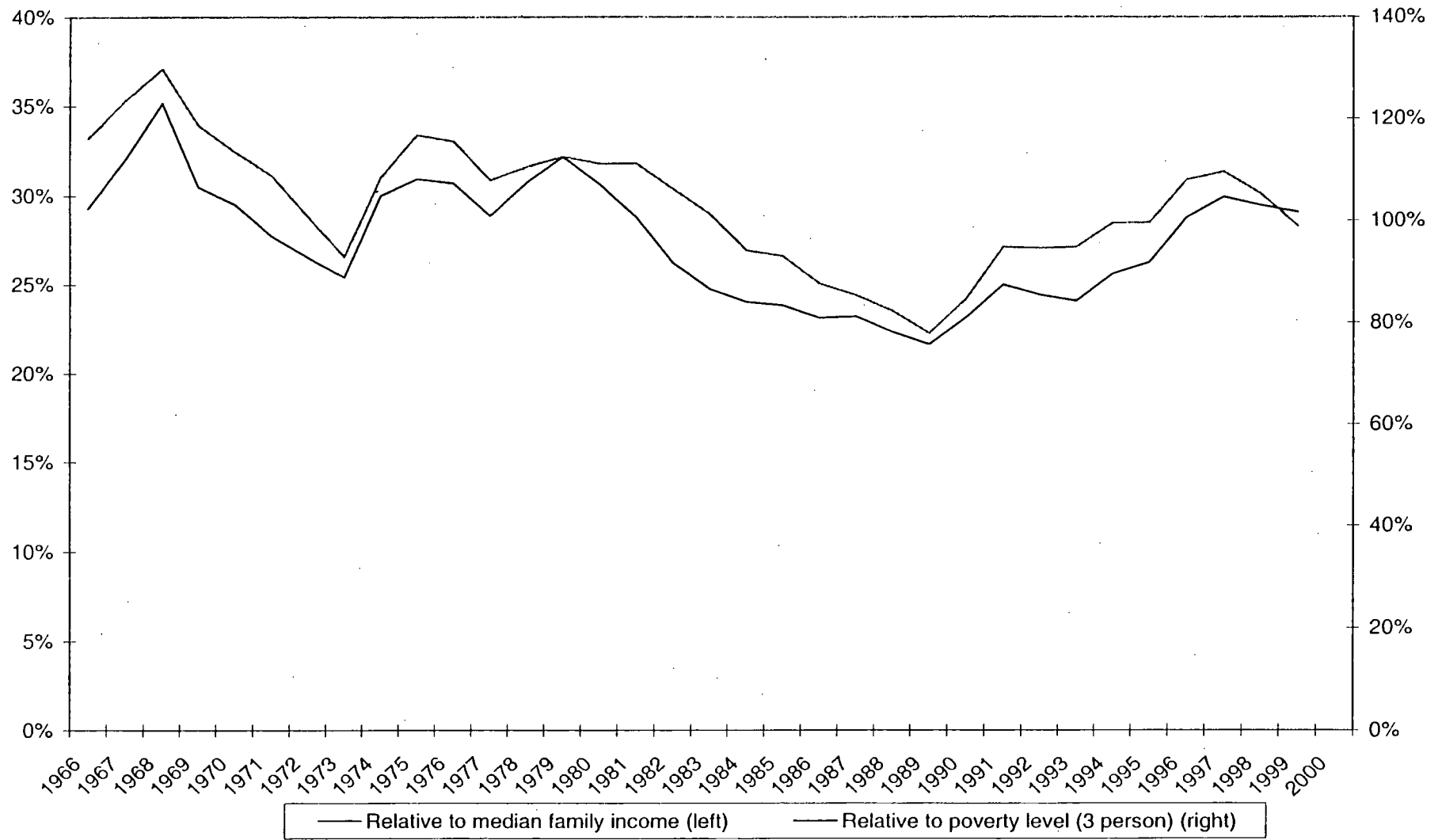
Constant 2000 dollars



Note: Maximum EITC subsidy is that for a family with two or more eligible children. Real values are computed using the CPI-U-RS.

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

Full time (2000 hours) earnings at minimum wage



THE MINIMUM WAGE: INCREASING THE REWARD FOR WORK

March 2000

A REPORT BY THE NATIONAL ECONOMIC COUNCIL
WITH THE ASSISTANCE OF THE COUNCIL OF ECONOMIC ADVISERS
AND THE OFFICE OF THE CHIEF ECONOMIST, U.S. DEPARTMENT OF LABOR

EXECUTIVE SUMMARY

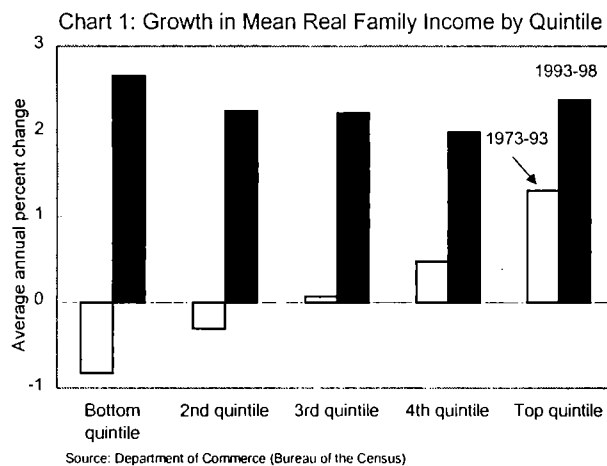
- **Raising the Minimum Wage by \$1 to \$6.15 an Hour Would Potentially Benefit More than 10 Million American Workers—Most of Whom are Adult Workers.** An analysis of labor market data shows that in 1999, 10.1 million hourly paid workers made between \$5.15 and \$6.14 an hour, and thus would potentially benefit from a \$1 increase in the minimum wage. About 69 percent of these workers are adults (age 20 or over), about 60 percent are women, about 45 percent worked full-time, and parents with children under 18 years old comprise almost 33 percent of those potentially affected. In 1997, the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.
- **Raising the Minimum Wage to \$6.15 an Hour Would Restore the Real Value to What It Was in 1982.** Since it was first established in 1938, the minimum wage has been increased 19 times. Between January 1981 and March 1990, the minimum wage was fixed at \$3.35 an hour, while prices rose by nearly 50 percent. The proposal to raise the minimum wage by \$1 over two years would restore the real value of the minimum wage to what it was in 1982.
- **Increasing the Minimum Wage Would Help Hard-Pressed Families Pay for Groceries, Rent, and Other Necessities.** Raising the minimum wage from \$5.15 to \$6.15 would raise the annual earnings of a full-time worker by about \$2,000 a year. A study of spending by low-income families found that they spend on average about \$300 per month on groceries and about \$400 on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent.
- **Recent Increases in the Minimum Wage Had No Discernable Negative Effect on Employment.** Since the minimum wage increase in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase—including younger workers, workers with lower educational levels, and minorities—also show no negative impact of the minimum wage on employment. Numerous careful economic studies, including ones by David Card and Alan Krueger, have shown that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can increase employment, because they increase employers' ability to attract, retain, and motivate workers. And they benefit workers by increasing the reward to work.
- **The Minimum Wage Plays a Key Role in Ensuring That All Workers Share in a Growing Economy.** In the last seven years, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. In contrast, in the previous two decades inequality widened, as poorer families saw their incomes decline in real terms. Research has shown that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women.

- **The Minimum Wage Has Helped Reduce the Welfare Caseload.** By increasing the reward to work, a higher minimum wage attracts new workers into the workforce. An analysis by the Council of Economic Advisers showed that higher federal and state minimum wages were responsible for 10 to 16 percent of the decline in welfare caseloads between 1996 and 1998.
- **The Minimum Wage and the Earned Income Tax Credit Are Complementary.** A working parent with two children earning the minimum wage in 1993 made \$10,563 with the EITC (in 1998 inflation-adjusted dollars)—well below the poverty line. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty line—making \$13,268—a 26 percent inflation-adjusted increase in its standard of living.

1. INTRODUCTION

The American economy is in the midst of the longest economic expansion in history. Since January 1993, the economy has created nearly 21 million new jobs. The unemployment rate in February 2000 was 4.1 percent, near its lowest level in three decades. The overall performance of the economy has only grown stronger over time. In the last four years, labor productivity has grown at a 2.9 percent annual rate and GDP has grown at a 4.4 percent annual rate. At the same time, the underlying core inflation rate in 1999 was 1.9 percent—the lowest rate since 1965.

In contrast to the previous twenty years, the strong economy of the last seven years has contributed to shared growth across all income groups and substantial poverty reduction. As indicated in Chart 1, incomes have grown nearly as strongly at the bottom as at the top of the



income distribution, ending a decades long increase in inequality. The poverty rate has fallen to 12.7 percent, the lowest level since 1979. The strong labor market has been beneficial to people across the economic and demographic spectrum. In 1999, the unemployment rates for African Americans and Hispanics fell to the lowest levels ever recorded.

Strong growth is necessary but not sufficient to produce sustained income gains and poverty reduction. Also important are policies that insure that all workers are

adequately rewarded for their work. The Clinton Administration has consistently sought to make work pay through a range of policies, including expanding the Earned Income Tax Credit in 1993, reforming welfare in order to increase work incentives, and increasing investments in child care for working parents. And an additional key element was the 1996-97 increase in the minimum wage. These policies interact in a beneficial way for low-income families. For instance, a working parent with two children earning the minimum wage in 1993 made \$10,563, with the EITC (in 1998 inflation-adjusted dollars), well below the poverty threshold. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty level—making \$13,268—a 26 percent inflation-adjusted increase in their standard of living.

This report examines the role that the minimum wage plays in increasing the reward to work and boosting incomes for workers at the bottom of the earnings distribution. The report also examines the recent evidence about the effect of the minimum wage on employment.

2. BACKGROUND ON THE MINIMUM WAGE

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act of 1938 (FLSA). Since its inception, the federal minimum wage has been increased 19 times, and the FLSA has been amended numerous times to expand the workers covered by the minimum wage provision. In recent years, about two thirds of wage and salary workers have been covered by the FLSA minimum wage. (Workers who are exempt most often are in executive, administrative, and professional occupations.)

[note: our graph uses CPI-U-RS for some and CPI-U for others, the NEC paper uses CPI-U; should we adjust our deflator so that we are consistent with previously published numbers?]

Declining value of the minimum wage

The real value of the minimum wage has fluctuated as inflation erodes the real value of the ~~minimum wage~~ and increases ^{in the mean} restore some value. (See chart 2.) In 1968, the real value of the minimum wage attained the maximum of \$7.84, in 2000 dollars. Since then, the real value of ~~the minimum wage~~ has declined, as nominal increases have been more than offset by inflation. During the 1980s, the real value of the minimum wage fell from \$6.48 to \$4.65. Increases in the early and mid 1990s have mostly offset the inflation effects during the 1990s. Still, the real value of the minimum wage fell by 30 cents since the most recent nominal increase took effect in 1997. nm ?

Insert new chart 2

The minimum wage provides a meager living at best. For example, an individual who worked full-time¹ at the minimum wage in 2000 would have an income of \$10,300, which only reaches 75% of the poverty level for a family of three. ~~In 1997, the minimum wage would provide an income that was 77% of the poverty rate for a family of three.~~ (See chart 3.) This income is also only 21% of the median family income in 1999 ~~down from 23% in 1997.~~

Insert new chart 3

The effects of the Earned Income Tax Credit

The income of some low-wage workers is also supplemented by the Earned Income Tax Credit (EITC). Operating through the income tax system, the EITC provides a wage subsidy for qualified low-income workers. The amount of the subsidy depends on how much the family earns and on whether the family has zero, one, or two or more children. In 2000, families with two or more children received a subsidy of 40 cents for every dollar of earned income up to \$9,700, for a maximum credit of \$3,880. This tax credit is refundable, so that even families who pay little or no income tax can benefit fully from the tax provision. Rather than falling to zero when earnings surpass \$9,700, the credit remains at \$3,880 until earnings reach \$12,700 and then gradually declines. For two-child families it phases out completely when earned income reaches \$31,152. Families with no children and one child are eligible for lower subsidies. nw

The EITC significantly affects the income of qualified individuals. For example, a family with two children and one full-time worker paid the minimum wage would be eligible for the full

¹ For the following illustrations, "full-time" is assumed to be 2000 hours in a calendar year.

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

However, the EITC does not subsidize all minimum wage earners ~~this much~~. In fact, only about xx% of minimum wage earners would receive this maximum subsidy. Households with one child receive a 34% subsidy of wages to a maximum of \$2,353; households with no children are only eligible for a 7.65% subsidy to a maximum of \$353. [Because the EITC is a subsidy for earnings, people who work part-time have a lower base and thus a smaller subsidy.] Further, families that have two full-time minimum wage workers would receive smaller subsidies, as the EITC subsidy is reduced as incomes rise above \$12,700 in household income. The ability of the EITC to increase earnings in low-income households is restricted because it requires the wage earner to claim the credit on income tax returns, which reduces participation; only xx% of eligible employees claimed the credit. The minimum wage also provides increased income throughout the year, rather than a lump sum payment after tax returns are filed, a benefit for those who require the income to meet immediate needs. (While the EITC can be paid ~~regularly~~ ^{quarterly} throughout the year, only xx% of those who receive the EITC take advance EITC payments.) Finally, if the minimum wage is raised, people who are below the threshold for maximum EITC payments will have higher base for the subsidy and receive additional EITC benefits. Thus, increasing the minimum wage is an important and effective approach to increasing the income of low-wage earners.

3. EMPLOYMENT EFFECTS OF INCREASING THE MINIMUM WAGE

In the last twenty five years, there have been three legislated increases in the minimum wage. From 1977 to 1981, it was increased from \$2.30 to \$3.35; from 1989 to 1992, it was increased from \$3.35 to \$4.25; and from 1995 to 1997, it was increased from \$4.25 to \$5.15. Thus, the annual increase was from 25cents to 45cents a year, but with larger increases over time because the rising inflation rate has eroded the value of the increase. In current dollars (xx 2000) these increases are equal to annual minimum wage increases of 49 to 60 cents.

Economic theory alone cannot determine the effects of the wage increases. Employers who experience wage increases may be inclined to reduce employment due to rising wage costs. However, some employers may respond to a moderately higher minimum wage by expanding employment or leaving it unchanged. Specifically, higher wages can help firms attract better workers, motivate them to work harder, and retain them for longer periods. (While firms always have the option of increasing their pay rate, some managers leave wages unchanged because of reluctance to increase average labor costs.) At least five papers—recently published in peer-reviewed economics journals—show that a moderate minimum wage can have a positive effect on employment.² In general, then, an increase in the minimum wage has an ambiguous effect on employment. The only way to determine the effect in practice is to look at the empirical evidence.

² See Bhaskar and To (1999), Dickens, Machin, and Manning (1999), Lang and Kahn (1998), Manning (1995), and Rebitzer and Taylor (1995). Additional discussion of these models are found in Chapter 11 of Card and Krueger (1995).

assistance for more than 60 months during their lifetime. States can exempt some recipients from this requirement, set even shorter time limits, or use their own funds to continue support beyond the 5-year limit. In 1999, 38 States used the 60-month time limit, and the remainder implemented other policies (8 states have shorter time limits, 3 currently have no time limit, and others intend to use longer periods).²⁴ Recipients must also work in some capacity after receiving benefits for 2 years, but States have flexibility in deciding how to implement this rule—, particularly in terms of strengthening it. In 1999, 28 States had welfare policies that imposed immediate work requirements rather than the 2-year requirement.²⁵

Finally, States can now design the parameters of their program to suit the needs of their residents. Although States have always had the freedom to set benefit levels, the new program allows them to set income and asset limits for eligibility as well and to establish their own methods of calculating the income of potentially eligible families. The majority of States have used this freedom to decrease the implicit tax on earnings. The AFDC program reduced benefits dollar for dollar for any earnings of more than \$90 per month after 12 months of work. This 100 percent “tax” created a strong disincentive to work, as many participants did not see their income increase after they went to work. Many States now use a more gradual benefit reduction rate to encourage greater work force participation. They are also investing in a wide range of supports to help welfare recipients and other low-income working families enter the work force and succeed on the job.

The Effects of Welfare-to-Work Programs

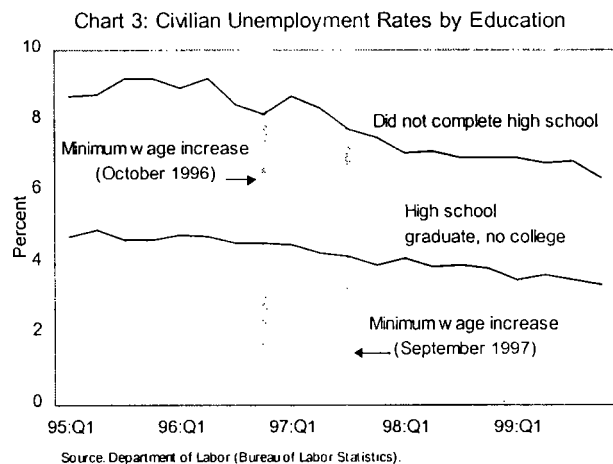
Since August 1996, caseloads have fallen dramatically (Chart 5-3). The average monthly national caseload has declined by 6 million, a reduction of 50 percent.²⁶ Including reductions that took place during the period of State waivers, caseloads have fallen by 7.8 million, or 56 percent, since 1993. Declines in some states have been even more dramatic. In Wisconsin, for example, the number of welfare recipients fell by 70 percent between 1996 and 1999, and it has fallen by 82 percent since 1993.

Thus, given past annual increases in the minimum wage of about 50 cents or so in current dollars, historical data can be used to examine the employment effects of increases in this range. This is done for different time periods and using different methods.

Effects on Employment in 1996-97

In 1996-97 the minimum wage was raised in two increments of 45 cents each. Subsequently, the American economy—and labor markets in particular—have continued to perform very strongly. Between September 1996 and February 2000, 10.2 million jobs were created—an average of 248,000 per month, even stronger job growth than in the previous 2 years. In retail trade, which has a large concentration of minimum wage workers, there were 1.4 million new jobs. Over this same period the overall unemployment rate fell from 5.2 percent to 4.1 percent.

More importantly, the labor markets that have the highest numbers of low-wage workers also experienced no discernable negative effects from the minimum wage increases. Just the opposite occurred—conditions in these markets continued to improve. For example, adults (age 25 and above) with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally declined for both high school graduates with no college and those with less than a high school education. Similarly, over the past five years the employment to population ratio generally held steady or increased for both groups of adults, as well as for teenage workers, and for African American teens in particular.



Effects on Employment in 1977-81 and 1989-92

The earlier two increases in the minimum wage, in 1977 to 1981 and 1989 to 1992, were increases of about the same annual magnitude as the 1996-97 increases. However, both of these earlier increases coincided with economic recessions and thus rising unemployment rates. Thus, the real question is, what would the employment effects of the minimum wage be if we could do an experiment—increase the wage, but have no other changes in the economy? One would like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other similar firms for which the minimum wage does not increase. Recent empirical research has attempted to do the econometric analysis that approximates this experiment.

Econometric Evidence on Employment Effects

The 1996 reforms have undeniably been successful in reducing the number of people receiving welfare. But reductions in caseloads are not the only measure by which to judge the reforms: the well-being of the millions of former welfare recipients is also important. Much of what we know about outcomes for welfare leavers comes from studies undertaken in individual States. To date over 30 States have conducted studies monitoring the outcomes of those who have left welfare. In addition, some of the data from State waiver experiments undertaken before the nationwide welfare reform have implications for current programs.²⁷

Available data on the results of welfare reform often differ from State to State and do not represent nationwide averages. This Report therefore supplements this information with new results from the U.S. Bureau of Census's Survey of Income and Program Participation (SIPP),²⁸ providing some of the first evidence on the effects of welfare reform for a nationally representative sample. The results from SIPP are based on a sample of people who were observed for at least 12 months after leaving the welfare rolls. These individuals were first observed between December 1995 and March 1996 and were reinterviewed every 4 months until November 1998 or February 1999, depending on the month of the initial interview. The new data cover the experiences of some of the earliest beneficiaries of welfare reform and may not reveal the effects of the time limits on receiving benefits or the long-term impact on families.

One of the most important issues in evaluating welfare reform is the incidence of recidivism--that is, the cycling of individuals on and off the rolls. Both SIPP data and a synthesis of State studies show that approximately 25 percent of those who leave welfare return within 12 months. (Most studies of recidivism, including those cited here, do not count transitions of less than two months as true welfare exits or entrances rolls for less than a month.) The majority of those who do return do so quickly: the SIPP data show that 18 percent of those who exit return within the first 6 months of leaving and only 7 percent during the second 6-month window. Further, the number of those returning to welfare declines with time. In Maryland 25 percent of former recipients returned to welfare within 12 months, but only 10 percent returned in the next 12 months, and just 1 percent in the third 12-month period.²⁹

Two researchers, David Card and Alan Krueger (1995), examine the impact of a minimum wage increase of about \$1.00 in the early 1990s. In 1992, New Jersey imposed a higher minimum wage of xx, and the neighboring state of Pennsylvania did not, keeping the wage at xx. And then in 1996 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. These two episodes provide an experiment that can be used to infer the effects of a minimum wage increase on employment. Card and Krueger use the BLS's employer-reported payroll files from 1991 through 1997 to evaluate employment growth of fast food restaurants in New Jersey and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little (and possibly slightly positive) effect on employment.³

neg. effect

Thus, their work shows that there were no negative employment effects of moderate wage increases, even for teenagers, the group for whom any disemployment effects should be most apparent because they are the least skilled. Similarly, ~~their detailed analysis fails to find disemployment effects of a minimum wage in the retail trade or in employment of fast food restaurants.~~ They provide a critical analysis of previous research, and present their own extensive exploration of the wide variation in minimum wages across states found in the late 1980s and early 1990s. More recent studies confirm their initial results.

However, this experiment, of increasing the minimum wage and making no other changes, is hard to mimic in the real world, where many changes take place simultaneously, and thus there are a variety of different estimates of the employment effects of the minimum wage, based on different data and different empirical methods. Dickens, Machin, and Manning (1999) studied the British experience with minimum wages. They found "...strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment."

[add here]

3. WAGE EFFECTS OF THE MINIMUM WAGE

The \$0.90 increase in the minimum wage in 1996 and 1997 is estimated to have benefited almost 10 million American workers.⁴ This section examines the impact of this increase on the distribution of wages.

Recent increases in the minimum wage in the U.S. have improved the distribution of wages at the low end of the distribution. Fortin and Lemieux (1997) demonstrate the importance of the minimum wage in boosting wages at the low end, and reducing wage inequality. They show that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women. Card and Krueger (1995) conclude that

³ While some critics of Card and Krueger expressed concern about their data collection, the most recent research uses BLS employment records and finds basically the same results.

⁴ See Bernstein and Schmitt (1998).

Helping Welfare Leavers Find and Keep Jobs

A key component to success after welfare is the ability to obtain a job and remain employed. The Administration provided a total of \$3 billion in fiscal years 1998 and 1999 in the form of Welfare-to-Work grants³⁰ to help States and local communities move long-term welfare recipients and noncustodial parents into jobs. The Administration also implemented the Workforce Investment Act, which allows States to provide job assistance to low-income workers (Box 5-1).³¹

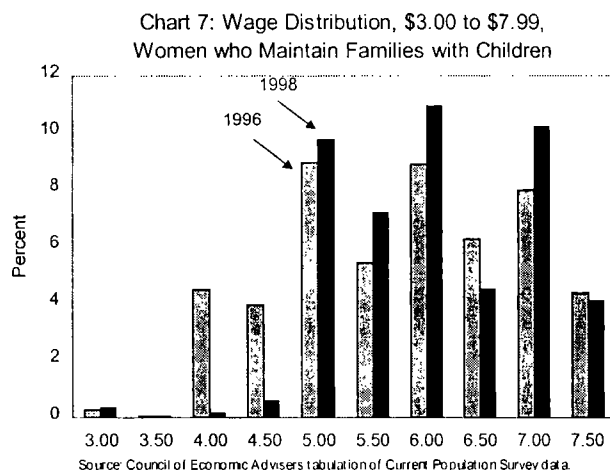
Box 5-1. The Workforce Investment Act

The Workforce Investment Act of 1998 was the result of a bipartisan effort by the Congress and the Administration. The law requires that basic job and career information and assistance be available to all Americans and creates a system developed around one-stop career centers in order to knit together multiple programs at the local level. The law also provides for intensive assessment, counseling, job search assistance, and training for low-income individuals and dislocated workers on a priority basis.

The law initiates three reforms that are designed to maximize training choices: individual training accounts, systems for identifying eligible training providers and their programs, and State and local Consumer Reports Systems containing extensive information on programs and their performance. These reforms were designed so that trainees will have the opportunity and the purchasing power to enter the training program of their choice rather than be channeled into one of a handful of locally contracted programs. The reforms provide a high level of reliable information that will empower trainees, allowing them to make informed choices.

Welfare-to-work programs generally use one of two approaches to helping welfare leavers find jobs. The “work first” approach aims to get people employed as quickly as possible. It assumes that work itself will give inexperienced workers the skills (human capital) they need to remain in

the 1990-91 minimum wage increase reversed about 30 percent of the increase in wage inequality that occurred during the previous decade.



The effect of the recent minimum wage increase—in October 1996 and September 1997—on the nominal wage distribution is clearly evident in wage data. Statistics tabulated from the Current Population Survey (CPS), show that in the first two quarters of 1996, when the federal minimum wage was \$4.25, about 10 percent of all hourly wage workers earned less than \$5.00.⁵ The minimum wage increase (to \$5.15) clearly increased wages in the low end of the distribution; by the first two quarters of 1998, the fraction of workers earning less than \$5.00 declined to 2 percent.

Chart 7 illustrates the effect of the 1996-97 minimum wage increases on the low end of the wage distribution (\$3.00 to \$7.99) for just one demographic group of interest, women who maintain families and have at least one child present in the household.⁶ For 1996, the distribution of wages shows that a relatively small share of workers with hourly wages earn between \$3.00 and \$3.99.⁷ In contrast, a substantial fraction earned between \$4.00 and \$4.49. (The chart shows the distribution by 50-cent increments.) This jump, of course, reflects the clustering of workers whose wages were at or near the minimum wage. The comparable distribution for 1998 indicates a shift that was clearly due to the change in minimum wage policy. In the first two quarters of 1996, about 9 percent of these women earned less than \$5.00. By the first two quarters of 1998, this fraction declined to 2 percent.

At the same time, an increasing share of workers earned wages above \$6 and \$7, suggestive evidence that the increase in the minimum wage had spillover benefits for workers above the minimum wage. Such spillover effects have been documented more formally in research by Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994).

4. RAISING THE MINIMUM WAGE: WHO IS DIRECTLY AFFECTED?

⁵ The analysis presented in this paper excludes salaried and other non-hourly workers. Research has shown, however, that a relatively smaller number and share of salaried workers and others not paid by the hour have earnings that, when translated into hourly rates, are at or below the minimum wage. BLS does not routinely estimate hourly earnings for nonhourly workers because of data concerns that arise in producing these estimates. See Haughen and Mellor (1990) for further information.

⁶ A family maintained by a woman is one in which the householder (person in whose name the housing unit is rented or owned) is female, and no spouse is present. Here we examine such households when a child under 18 is present.

⁷ The presence of workers with reported wages below the minimum wage does not necessarily indicate violations of the Fair Labor Standards Act. There are several reasons why the reported wage for a worker may be below the Federal minimum. First, certain workers are exempt from the minimum wage provisions of the law, including workers for whom tips might serve to supplement the hourly wages received. Second, there may be a misreporting or rounding in the survey responses. When the minimum wage is \$5.15, for example, a large number of workers report a wage of exactly \$5.00.

the labor force, and move to increasingly better jobs. This approach focuses on maintaining an attachment to the labor force rather than on initial wages. The alternative approach relies on comparatively extensive education and training before welfare leavers enter the labor market. It keeps them out of the work force longer in the expectation that, once they enter the labor market, they will find better jobs than they could otherwise.

The work-first approach is by far the more commonly employed, and studies of initial outcomes indicated that it was the more successful: employment levels and earnings were higher in areas that have used it. However, a new study comparing outcomes across counties in California over a 9-year period finds that results for the two approaches are similar in the long term.³² A separate study comparing the outcomes of 11 different welfare-to-work programs over a 2-year period found that the most successful approach combined an emphasis on work with assistance in completing the General Education Diploma (GED).³³

Employment levels among former welfare recipients have increased substantially since the 1996 reform.³⁴ Administrative data from studies conducted in several different States show that between 62 and 75 percent of those leaving welfare were employed at some point in the following year, and approximately 40 percent were employed in all four quarters.³⁵ Results are similar at the national level. SIPP data show that 66 percent of welfare leavers were employed at some point in the following 12 months, and 43 percent had earnings in all four quarters. However, many of those working all four quarters were employed less than full time. Only 32 percent of welfare leavers worked 50 weeks or more during the year, and just 40 percent of this group (12.8 percent of all leavers) worked 35 or more hours in each week. Thus, although labor force participation has increased significantly among former welfare recipients, there is still considerable room for further gains.

Importantly, employment rates increased even among those who remained on welfare. In 1999, 33 percent of welfare recipients were working, compared with just 7 percent in 1992.³⁶ Developing an attachment to the labor market even while on welfare is important, because it increases the probability of success after welfare is no longer an option.³⁷

- improve

Increases in the minimum wage of the orders of magnitude similar to those of past increases would have a substantial effect on the incomes of low-wage workers. The minimum wage increase passed in 1995 raised the Federal minimum wage by \$0.90 in nominal terms, or approximately \$0.98 in 2001 dollars. A similar increase of \$1 an hour in the current minimum wage would raise the annual earnings of a full-time minimum-wage worker by about \$2,000 a year, assuming to change in employment status or hours worked. When measured in real terms, previous increases in the minimum wage have been larger than that instituted by the 1995 legislation. The round of increases legislated in 1977 was totaled \$1.05 or \$2.38 in current dollars and the 1989 increases were equal to \$1.16 in 2001 dollars. A simple average of the 1995, 1989 and 1977 changes corresponds to a current increase of approximately \$1.50 in the minimum wage. A change of this size would increase the yearly income of a full-time minimum-wage worker by \$3000. A recent study found that low-income families spend an average of \$300 per month on groceries and about \$400 on rent. Thus a \$2000 increase in earnings would provide enough additional income to pay for nearly 7 months of groceries or 5 months of rent; a \$3000 increase would provide for 10 months of groceries or 6 months of rent. These increases in the minimum wage can therefore have substantial effects on the well-being of low-income workers and their families. annual

Characteristics of Minimum Wage Workers in 2000

The majority of benefits of a minimum wage increase would accrue to those currently earning wages at, or just above the minimum wage.⁸ The characteristics of these workers is available from unpublished tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the CPS. In the third quarter of 2000, 72.8 million workers were paid at hourly rates, representing about xx percent of wage and salary workers. Approximately 828,000 workers earn a wage equal to the current \$5.15 Federal minimum and an additional 2.3 million workers earn wages below the federal minimum. Thus, 4.4 percent of hourly workers earned wages at or below the Federal minimum wage.⁹ This fraction is down slightly from 4.6 percent in 1999.

Selected demographic and economic characteristics for minimum wage workers are presented in Table 1 for the third quarter of 2000. The statistics indicate that nearly 60 percent of workers earning \$5.15 per hour were age 20 or older and 41 percent of these workers are over the age of 25. Sixty-one percent of minimum wage workers are women. Finally, 1.4 percent of women who are paid hourly wages are employed at the minimum wage while the figure is 0.8 percent for men. There are also differences in wage rates by race and ethnicity: 1.3 percent of African American hourly workers earned the minimum wage compared to 1.1 of whites and Hispanics.

How Many Workers would be Affected by an Increase in the Minimum Wage?

Using the CPS data described above, it is possible to identify the number and characteristics of workers with wage rates slightly above the current minimum wage and who would therefore also likely benefit from an increase in the minimum wage. In keeping with the magnitudes of past

⁸ An increase in the minimum wage could have spill-over effects if employers increase the wages of those earning above the new minimum to maintain similar levels of relative wages..

⁹ These are workers earning the legal sub-minimum training wage or the minimum wage applicable for tipped employees, as well as those illegally paid less than minimum wage.

The importance of the booming economy to these successes should not be understated. Theories of human capital accumulation and the tenets behind work-first programs suggest that time spent working increases productivity, job skills, and wages. The long economic expansion and historically low unemployment rates have given current and former welfare recipients the chance to accumulate work experience that would be expected to serve them well in a future downturn. The longer the expansion continues, the better prepared they will be to weather the consequences.

Earnings

Although employment is important in and of itself, so, too, are earnings. Welfare leavers are unlikely to thrive in the workplace if they are no better off financially than they were before leaving the welfare rolls. Evidence from State studies indicates that, at least initially, few leavers are significantly better off. Median quarterly earnings for those who found employment varied from \$2,000 to \$3,000, or approximately \$700–\$1,000 per month. In Wisconsin the majority of leavers had lower incomes (earnings plus food stamp benefits) after exiting welfare than they had while receiving welfare benefits. For the sample of SIPP leavers, the median monthly household income plus food stamps for the year following exit was \$1,605, compared with \$1,509 in the 2 months preceding exit. For 44 percent of leavers, total household income plus food stamps in the year following exit was more than \$50 per month higher than in the months before; for 49 percent it was at least \$50 lower.

The idea behind work-first programs is that an initial job will lead to earnings growth over time. Because many former welfare recipients find employment in low-wage industries such as food services, their prospects for earnings growth may not seem extremely bright.³⁸ Yet 39 percent of SIPP leavers had monthly earnings in the second 6 months after leaving welfare that were \$50 or more higher than in the first 6 months. Twenty-eight percent saw a reduction in earnings of \$50 or more over the two 6-month periods immediately following exit. Thus, over one-third of former welfare recipients did find jobs that provide earnings growth through increases in hours, wages, or both.

increases in the minimum wage, we examine the characteristics of those earning within \$1 of the current minimum (\$5.16-\$6.14) and those earning between \$1 and \$1.5 above the current minimum (\$6.15-\$6.64). Assuming no change in employment, the former group is likely to see an increase in wages if the minimum wage is increased by \$1 or more, and the latter, if an increase is of at least \$1.50. Table 2 presents the number of individuals who currently have an hourly wage within each of these categories and the characteristics of those workers. To highlight the results presented in the table:

- There are approximately 6.9 million workers within \$1 of the minimum wage—nearly 10 percent of all hourly workers. An additional 3.4 million workers are within \$1 and \$1.50 of the minimum wage, or 4.6 percent of all hourly employees. An increase of \$1.50 could therefore provide direct benefits to nearly 8 percent of hourly employees.
- 68 percent of those with wages within \$1 of the minimum wage are adults age 20 or older as are xx percent of those with wages between \$1.0 and \$1.5.
- About 60 percent of the first group of workers are women as are xx percent of the second.
- 16 percent of those earning between \$5.16 and \$6.14 are African American and 20 percent are Hispanic. The figures for those earning between \$6.15 and \$6.64 are xx.
- Among workers in the \$5.15-\$6.14 range, approximately 34 percent are a household head or a spouse who contributes to family income. Among those in the \$6.15-\$6.64 interval the fraction is xx percent.

Other studies have examined the potential beneficiaries of an increase in the minimum wage, focusing on family and income characteristics. Some highlights from these studies are:

- Parents with children under 18 years old comprise almost 33 percent of those potentially affected. (Bernstein, Hartmann, and Schmitt, 1999).
- Over 50 percent of the proposed gains would go to households with incomes less than \$25,000 per year. (Bernstein, Hartmann, and Schmitt, 1999).
- 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 19 percent to families with income below 300 percent of the poverty level. (Burkhauser, 1999).

Income gains from the Earned Income Tax Credit (discussed in detail below) are not included in these calculations. Although its benefits are not recorded in the SIPP data, the earned income credit provides a substantial subsidy to low-income workers, and including its effects would improve incomes and poverty rates considerably. Although its figures do not focus specifically on welfare leavers, the Census Bureau estimates that in 1999 the fraction of households with after-tax incomes of less than \$10,000 a year falls from 9.9 percent to 9.3 percent when the Earned Income Tax Credit (EITC) is factored in.³⁹ At a maximum of \$3,880 for a low-income worker with two children, the EITC could add up to \$323 per month to a family's income.

Making Work Pay

A network of government support programs facilitates the transition from welfare to work. In the past, families leaving welfare often lost not only their cash assistance but also other benefits such as food stamps and Medicaid. At the same time they incurred explicit payroll taxes and additional expenses associated with work, such as child care and transportation costs. One study found that the implicit marginal tax rate—the net amount paid in taxes, forgone benefits, and expenses from a one-dollar increase in income—for AFDC recipients could easily exceed 50 percent.⁴⁰ In other words, earning one dollar more in the labor market increased their disposable income by less than 50 cents.

The Administration's welfare reform proposals have attempted to reduce these implicit taxes by increasing the rewards from work, through a higher minimum wage and an increased Earned Income Tax Credit, through increased subsidies for child care, and through expanded health insurance coverage to include working families not previously eligible for public programs.⁴¹ The Administration has also worked to help single parents collect the child support payments due them. These programs do more than help ease the transition from welfare to work; they also benefit working families who may have never received welfare. By reaching out to both groups, the Administration has worked to ensure that no working family is left behind.

The Earned Income Tax Credit. Operating through the income tax system, this credit provides a wage subsidy for low-income workers. The amount of the subsidy depends on how much the

Table 1. Employed Wage and Salary Workers Paid Hourly Rates with Earnings At or Below Minimum Wage, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demographic group who earn \$5.15 or less
	Total paid hourly rates	Paid \$5.15 or less	Total paid hourly rates	Paid \$5.15 or less	
Total, 16 years and over	72,306	3,340	100.0	100.0	4.6
AGE					
16 to 19 years	6,600	1,006	9.1	30.1	15.2
20 and over	65,706	2,334	90.9	69.9	3.6
SEX					
Men, 16 years and over	36,073	1,214	49.9	36.3	3.4
Women, 16 years and over	36,233	2,126	50.1	63.7	5.9
RACE AND HISPANIC ORIGIN					
White	58,999	2,698	81.6	80.8	4.6
African American	10,126	515	14.0	15.4	5.1
Hispanic origin	9,402	513	13.0	15.4	5.5
FULL- AND PART-TIME STATUS					
Full-time workers	54,931	1,320	76.0	39.5	2.4
Part-time workers	17,227	2,010	23.8	60.2	11.7
FAMILY RELATIONSHIP					
Husbands	17,609	242	24.4	7.2	1.4
Wives	16,996	622	23.5	18.6	3.7
Women who maintain families	5,395	288	7.5	8.6	5.3
Men who maintain families	1,815	50	2.5	1.5	2.8
Other persons	30,491	2,082	42.1	62.1	28.1

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

family earns and on whether there are zero, one, or two or more children. By effectively increasing the wage rate, the Earned Income Tax Credit offers those eligible an added incentive to participate in the labor force. In 2000, families with two or more children received a subsidy of 40 cents for every dollar of earned income up to \$9,700, for a maximum credit of \$3,880. This tax credit is refundable, so even families who pay little or no income tax can benefit fully from the tax provision. Rather than falling to zero when earnings surpass this level, the credit remains at \$3,880 until earnings reach \$12,700 and then gradually declines. It is phased out completely when earned income reaches \$31,152 (Chart 5-4).⁴² The gradual reduction reduces the disincentive to earn income beyond the level at which the credit peaks.

The Earned Income Tax Credit has been expanded greatly since 1990, with increases in both benefits and scope of coverage. The 1993 expansions increased benefits for approximately 15 million families, in large part by raising the subsidy for families with two or more children.⁴³ The 1993 expansion also, for the first time, allowed workers without children to claim a tax credit.⁴⁴ As a result of both the 1990 and 1993 expansions, credits paid through this provision increased from \$15.5 billion in 1993 to nearly \$32 billion in tax year 1999.⁴⁵ At the same time the number of families receiving assistance from the program increased by one-third, from 15 million to just over 19 million.⁴⁶ The program now pays out more than the combined amounts distributed through the TANF and food stamp programs.⁴⁷

This wage subsidy has been effective in attracting more workers into the labor market (Chart 5-5).⁴⁸ According to one estimate, the Earned Income Tax Credit alone was responsible for 34 percent of the increase in annual employment among unmarried mothers between 1992 and 1996.⁴⁹

In addition to increasing the probability of employment for low-income people, the Earned Income Tax Credit has done much to improve the well-being of those who take advantage of it. Many former welfare recipients have trouble securing jobs that pay enough to raise their incomes above the poverty level. But when the credit is taken into account, the earnings of many of these new workers rise substantially. In 1999 the credit lifted 4.1 million individuals, including 2.3

Table 2: Distribution of Wage and Salary Workers Paid Hourly Rates, 1999

Characteristic	Number (in thousands)		Percent distribution		Percent of workers in demographic group who falls in wage category	
	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14
Total, 16 years and over	10,093	8,370	100.0	100.0	14.0	11.6
AGE						
16 to 19	3,133	1,482	31.0	17.7	47.5	22.5
20 and over	6,960	6,888	69.0	82.3	10.6	10.5
SEX						
Men, 16 years and over	4,076	3,405	40.4	40.7	11.3	9.4
Women, 16 years and over	6,018	4,965	59.6	59.3	16.6	13.7
RACE AND HISPANIC ORIGIN						
White	8,027	6,668	79.5	79.7	13.6	11.3
African American	1,602	1,336	15.9	16.0	15.8	13.2
Hispanic	1,989	1,447	19.7	17.3	21.2	15.4
FULL- AND PART-TIME STATUS						
Full-time workers	4,563	5,301	45.2	63.3	8.3	9.7
Part-time workers	5,512	3,048	54.6	36.4	32.0	17.7
FAMILY RELATIONSHIP						
Husbands	851	990	8.4	11.8	4.8	5.6
Wives	1,821	1,962	18.0	23.4	10.7	11.5
Women who maintain families	855	807	8.5	9.6	15.8	15.0
Men who maintain families	171	167	1.7	2.0	9.4	9.2
Other persons	6,396	4,445	63	53	84	58

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

million children, out of poverty. The provision has also been effective in targeting benefits to the most needy. Estimates are that between 50 and 60 percent of its benefits accrue to families with incomes below the poverty line.⁵⁰

Minimum wage. The minimum wage operates in tandem with the Earned Income Tax Credit: the credit provides an effective wage subsidy, and the minimum wage laws ensure that that subsidy is based on an acceptable wage. The real value of the minimum wage declined substantially from 1992 to 1995, falling to just 71 percent of its peak value in 1968.⁵¹ Subsequent Administration-backed efforts led to increases in the minimum wage in 1996 and 1997. Even with these most recent increases, however, the minimum wage in 1999 was equal to less than 80 percent of its 1968 level (after controlling for inflation).

However, when the minimum wage is combined with a possible 40 percent subsidy from the Earned Income Tax Credit, the true minimum wage for workers with two or more children and earnings of less than \$9,700 is \$7.21 an hour (Chart 5-6). This hourly rate is nearly as high in real terms as the peak minimum wage rates of the 1960s. Even so, an individual working full-time at the minimum wage would have a yearly income of just \$14,188 (including the credit), well below the poverty line of \$16,895 for a family of two adults and two children.

<insert Chart 5.6: Minimum wage with EITC chart here>

Child care. For many parents, one of the most difficult barriers to employment is finding affordable, good-quality child care. For low-income families and new entrants to the labor market, the costs of child care may make working impossible. Recognizing these costs as a barrier to work, the Administration has fought to make child care more affordable for low-income families and to provide assistance with child care expenses to a greater number of families. As a result, funding for child care increased by XX percent since 19XX, and the various existing child care programs have been combined to create the Child Care and Development Fund. The fund provides States with block grants for the purpose of subsidizing approved child care arrangements. In fiscal year 2000, States had access to more than \$3.5 billion through this program. These funds are used not only to make child care more affordable but also to improve the quality of that care.⁵²

The effects of an increase in the minimum wage will differ across states. As of January 1, 2001, 11 states had minimum wages that were above the Federal level. In these states an increase in the Federal minimum would have less of an effect. In California, for example, the current state minimum wage is \$6.25, \$1.10 above the Federal minimum wage. The California minimum wage is scheduled to increase further to \$6.75 on January 1, 2002. Minimum wage workers in California would therefore be unaffected by a \$1 an hour increase in the Federal minimum wage. Appendix A presents the minimum wages by state.

Recent Successes and Remaining Challenges

The current economic expansion has provided benefits to many Americans and low-income workers have shared in the gains (table 3). In 1994, the minimum wage was just \$4.25 an hour and 6.2 percent of all hourly workers earned a wage at or below this level. The fraction of workers with wages at or below the Federal minimum wage (now \$5.15) has since fallen to 4.4 percent in the third quarter of 2000. When looking at the absolute number of workers in various categories the changes are often astounding. In 1994, 1,241,000 women, women earned the minimum wage and this number fell to 505,000 in the most recent data, while at the same time absolute number of women who were employed in jobs paying hourly wages rose. For men the decline in the number earning the minimum wage has been from 891,000 in 1994 to 322,000 currently. Improvements have also been evident across racial and ethnic lines. The number of white workers earning the minimum wage fell during these years from 1.66 million to 670,000. For African Americans the numbers ^{dropped} were 356,000 ^{from} and 125,000, ^{to} and for Hispanics, 401,000 to 111,000.

The strong economy has likely played an important role in these improvements. Focusing on the most recent time period, large gains were observed between 1999 and 2000, a period during which the minimum wage was not increased, but wages rose for low-income workers. The fraction of workers with wages at or below the Federal minimum fell from 4.6 percent of all hourly workers in 1999 to 4.3 percent in the third quarter of 2000. The number of women employed at minimum wage jobs fell from 700,000 to 505,000 and the number of men from 446,000 to 322,000. For whites the decline in the number of minimum wage workers was from 1.15 million to 670,000, for African Americans it was from 217,000 to 125,000 and for Hispanics, from 166,000 to 111,000.

However, despite years of economic growth and the success of many workers in attaining higher wages, many are still employed at jobs offering only minimum wage. For these workers, and others with wages only slightly above the minimum, earnings are insufficient to move a family out of poverty. For a worker earning \$5.15 an hour in 2000 and working 2000 hours, annual earnings are just \$10,300, well below the poverty line for a family of four. Furthermore, relative to the population of minimum wage workers existing after the last minimum wage increase in 1997, the current population is more likely to be supporting a family and more likely to be African American. It is these workers and their families who could benefit substantially from increases in the minimum wage.

4. CONCLUDING REMARKS

Estimates suggest that 1.75 million children benefited from the Child Care and Development Fund in 1999. Despite this substantial investment, however, many States have waiting lists for benefits, and many families who qualify for the subsidies do not receive benefits. According to one study, only 30 percent of families who have left welfare and are now self-supporting are receiving assistance with child care.

Food stamp program. The food stamp program supplements family incomes to help ensure that low-income families receive adequate nutrition. Benefits are available to families with incomes up to 130 percent of the poverty line. In fiscal year 1998 the vast majority of benefits (nearly 90 percent in dollar terms) went to elderly individuals and families with children.⁵³ In 1999, 27 percent of participating households had earned income. Since 1994 enrollment in the food stamp program has fallen dramatically, from a high of 27.5 million participants to 18.2 million in 1999. Of concern, however, is the fact that the participation rate for eligible families declined from 71 percent in September 1994 to 62 percent in September 1997.⁵⁴ This decline is particularly marked for families with children. In 1999 only 51 percent of children in families with incomes below the poverty line received food stamps. Even among the very poorest children in families with incomes less than 50 percent of the poverty line—only 58 percent received food stamps in 1999, down from 76 percent in 1993.⁵⁵

Several factors could be responsible for the decline in participation. Changes in the laws governing the program have excluded some immigrants from the program and restricted the amount of benefits that able-bodied workers may receive. Limitations on the value of assets an eligible family may hold may also exclude some needy families. And the strong economy and the growing number of workers with jobs may have helped reduce the need for food stamps. But these factors alone cannot explain all of steep decline in participation rates, and it is likely.. that some eligible families are not receiving the benefits they need (and are entitled to receive), especially families just leaving the welfare rolls. Rules governing participation in the program are often a factor here. States require that wage-earning food stamp recipients have their incomes recertified at regular intervals, typically as often as every three months and even more frequent in some states. For low-wage earners without much time off, this requirement could

The economic expansion and economic policies of the last eight years have raised the wage levels of many individuals who are at the low end of the wage scale. Even the last year alone accounts for remarkable improvements—the number of individuals earning at or below the minimum wage has declined from xx in 1999 to xx in 2000 (quarter three?). However, two concerns remain—the value of the minimum wage has eroded over time, and many individuals remain at or below the minimum despite the economic expansion.

The evidence suggests that moderate increases in the minimum wage can provide meaningful additional earnings for many of America's most hard-pressed working families, and thus can lower the rate of poverty in these households. The erosion of the real value of the minimum wage probably increased wage inequality by about 25 to 30 percent during the periods of rising inequality. The current minimum wage is only xx percent of the average median wage, and has declined steadily over time. Many women have now left the welfare rolls—the number of women on welfare has declined by 44 percent since 1996—and these women are seeking meaningful employment at wages that can sustain their families.

A moderate minimum wage increase that is instituted now would be put in place when the unemployment rate is extraordinarily low, suggesting that these wage increases would be passed directly to employees. The current unemployment rate, at 4.x percent, is at its lowest level since the 1960s—since then, all minimum wage increases have been instituted during periods of higher rates of unemployment. Thus, employment losses from moderate wage increases at this time should be minimal or nonexistent. Minimum wage increases should have the greatest income enhancement at this time of low unemployment rates.

well be a substantial deterrent to participation. A recent study underscored this concern, attributing a large portion of nonparticipation to the costs to recipients of regular recertification.⁵⁶

In response to these recent trends, the Administration has implemented a series of changes in the regulations governing the food stamp program. These changes substantially reduce the need for recertification for those leaving welfare and the newly employed, and streamline the application process. States can also receive bonus awards under the TANF program for high participation rates for low-income working households and for overall increases in participation. To date, \$20 million has been allocated for these awards. Finally, the Administration has provided funding for educational and outreach campaigns aimed at improving nutrition for low-income families and the elderly.⁵⁷

Child support programs. Child support payments from noncustodial parents are an important source of income for poor children. In 1997 child support lifted an estimated half a million children out of poverty.⁵⁸ Child support is particularly important for families leaving welfare. Women who leave welfare and do not receive child support have more than a 30 percent chance of recidivism after six months. For those receiving even small amounts of child support (0-\$100 per month), that figure drops to 10 percent.⁵⁹

An important component of the Administration's policies to help working families is ensuring that single and divorced parents receive the child support payments they are entitled to under the law. Between fiscal years 1992 and 1999 the dollar value of child support collections increased in real terms by more than two-thirds, from \$9.5 billion to nearly \$16 billion (in 1999 dollars). During the same period the number of child support cases involving collections increased from 2.6 million to 6.1 million.

However, much of the money collected never reaches the custodial parent. Many States reduce TANF benefits dollar for dollar when a noncustodial parent provides support, reducing the incentive for noncustodial parents to provide for their children. The President has proposed

EXECUTIVE SUMMARY

- **Raising the Minimum Wage by \$1 to \$6.15 an Hour Would Potentially Benefit More than 10 Million American Workers—Most of Whom are Adult Workers.** An analysis of labor market data shows that in 1999, 10.1 million hourly paid workers made between \$5.15 and \$6.14 an hour, and thus would potentially benefit from a \$1 increase in the minimum wage. About 69 percent of these workers are adults (age 20 or over), about 60 percent are women, about 45 percent worked full-time, and parents with children under 18 years old comprise almost 33 percent of those potentially affected. In 1997, the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.
- **Raising the Minimum Wage to \$6.15 an Hour Would Restore the Real Value to What It Was in 1982.** Since it was first established in 1938, the minimum wage has been increased 19 times. Between January 1981 and March 1990, the minimum wage was fixed at \$3.35 an hour, while prices rose by nearly 50 percent. The proposal to raise the minimum wage by \$1 over two years would restore the real value of the minimum wage to what it was in 1982.
- **Increasing the Minimum Wage Would Help Hard-Pressed Families Pay for Groceries, Rent, and Other Necessities.** Raising the minimum wage from \$5.15 to \$6.15 would raise the annual earnings of a full-time worker by about \$2,000 a year. A study of spending by low-income families found that they spend on average about \$300 per month on groceries and about \$400 on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent.
- **Recent Increases in the Minimum Wage Had No Discernable Negative Effect on Employment.** Since the minimum wage increase in 1996, the economy has created more than 10 million jobs and the unemployment rate has fallen from 5.2 percent in September 1996 to 4.1 percent in February 2000, near its lowest level in thirty years. Labor market trends for workers most affected by the minimum wage increase—including younger workers, workers with lower educational levels, and minorities—also show no negative impact of the minimum wage on employment. Numerous careful economic studies, including ones by David Card and Alan Krueger, have shown that increasing the minimum wage has no negative effect on employment. Recent research has even suggested that higher wages can increase employment, because they increase employers' ability to attract, retain, and motivate workers. And they benefit workers by increasing the reward to work.
- **The Minimum Wage Plays a Key Role in Ensuring That All Workers Share in a Growing Economy.** In the last seven years, incomes have grown nearly as strongly at the bottom as at the top of the income distribution, ending a decades long increase in inequality. In contrast, in the previous two decades inequality widened, as poorer families saw their incomes decline in real terms. Research has shown that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women.

- **The Minimum Wage Has Helped Reduce the Welfare Caseload.** By increasing the reward to work, a higher minimum wage attracts new workers into the workforce. An analysis by the Council of Economic Advisers showed that higher federal and state minimum wages were responsible for 10 to 16 percent of the decline in welfare caseloads between 1996 and 1998.
- **The Minimum Wage and the Earned Income Tax Credit Are Complementary.** A working parent with two children earning the minimum wage in 1993 made \$10,563 with the EITC (in 1998 inflation-adjusted dollars)—well below the poverty line. With the 1993 increase in the EITC and the 90 cent increase in the minimum wage in 1996 and 1997, a comparably situated family in 1998 was above the poverty line—making \$13,268—a 26 percent inflation-adjusted increase in its standard of living.

THE MINIMUM WAGE: INCREASING THE REWARD FOR WORK

March 2000

A REPORT BY THE NATIONAL ECONOMIC COUNCIL
WITH THE ASSISTANCE OF THE COUNCIL OF ECONOMIC ADVISERS
AND THE OFFICE OF THE CHIEF ECONOMIST, U.S. DEPARTMENT OF LABOR

this group in the event of a minimum wage increase to \$6.15, Table 2 also presents the number of workers with hourly wages between \$6.15 and \$7.14. In 1999 there were approximately 8.4 million such workers, many of whom could indirectly benefit from a minimum wage increase.

Appendix A presents a breakdown of the number of workers that would benefit by state. While the most populous states would have the greatest number of workers in these wage categories (California, for example, has almost 1.5 million workers with wages between \$5.15 and \$6.14) the evidence suggests that thousands of workers in every state would potentially benefit from a \$1.00 increase in the minimum wage.

3. EMPLOYMENT EFFECTS OF INCREASING THE MINIMUM WAGE

In the last twenty five years, there have been three legislated increases in the minimum wage. From 1977 to 1981, it was increased from \$2.30 to \$3.35; from 1989 to 1992, it was increased from \$3.35 to \$4.25; and from 1995 to 1997, it was increased from \$4.25 to \$5.15. Thus, the annual increase was from 25cents to 45cents a year, but with larger increases over time because the rising inflation rate has eroded the value of the increase. In current dollars (xx 2000) these increases are equal to annual minimum wage increases of 49 to 60 cents.

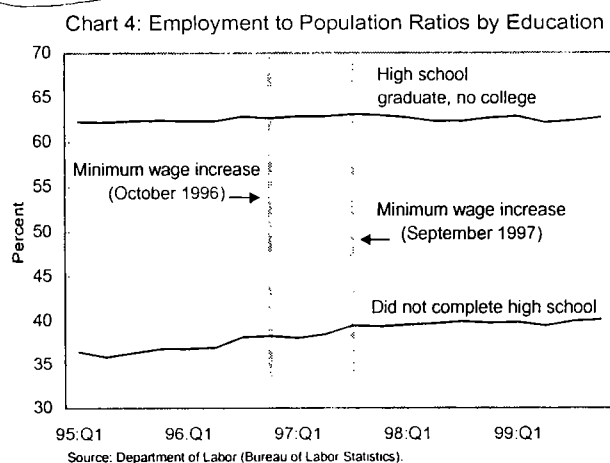
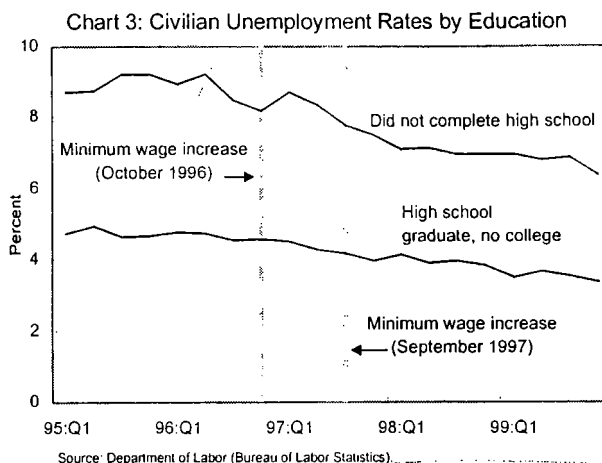
Thus, given past annual increases in the minimum wage of about 55 cents ^{or 50} in current dollars, historical data can be used to examine the employment effects of increases in this range. (footnote on the level as relevant as well as the annual increase—when it has eroded in value, a bigger increase would have a smaller employment effect). Economic theory alone cannot determine the effects of the wage increases. Employers who experience wage increases may be inclined to reduce employment due to rising wage costs. However, some employers may respond to a moderately higher minimum wage by expanding employment or leaving it unchanged. Specifically, higher wages can help firms attract better workers, motivate them to work harder, and retain them for longer periods. (While firms always have the option of increasing their pay rate, some managers leave wages unchanged because of reluctance to increase average labor costs.) At least five papers—recently published in peer-reviewed economics journals—show that a moderate minimum wage can have a positive effect on employment.¹ In general, then, an increase in the minimum wage has an ambiguous effect on employment. The only way to determine the effect in practice is to look at the empirical evidence.

Effects on Employment in 1996-97
In the 1996-97 increase in the minimum wage, the American economy—and labor markets in particular—have continued to perform very strongly. Between September 1996 and February 2000, 10.2 million jobs were created—an average of 248,000 per month, even stronger job growth than in the previous 2 years. In retail trade, which has a large concentration of minimum

¹ See Bhaskar and To (1999), Dickens, Machin, and Manning (1999), Lang and Kahn (1998), Manning (1995), and Rebitzer and Taylor (1995). Additional discussion of these models are found in Chapter 11 of Card and Krueger (1995).

wage workers, there were 1.4 million new jobs. Over this same period the overall unemployment rate fell from 5.2 percent to 4.1 percent.

More importantly, the labor markets that have the highest numbers of low-wage workers also experienced no discernable negative effects from the minimum wage increases. Just the opposite occurred—conditions in these markets continued to improve. For example, adults (age 25 and above) with lower levels of education generally have relatively low wages. As Chart 3 indicates, though, quarterly unemployment rates have generally declined for both high school graduates with no college and those with less than a high school education. Chart 4 shows, similarly, that over the past five years the employment to population ratio generally held steady or increased for both groups of adults. No visible disruptions to these trends are apparent following either the 1996 or 1997 minimum wage increases. Comparable observations pertain for teenage workers in general, and for African American teens specifically (Charts 5 and 6).²



Econometric Evidence on Employment Effects

These data for 1996-97 provide evidence that the minimum wage increase did not have a major negative effect on employment, but this was a period of strong economic growth and overall low unemployment rates. If we look to the earlier two increases in the minimum wage, from 1977 to 1981 and from 1989 to 1992, in both periods unemployment rose. But both these earlier periods coincided with economic recessions that were the primary source of rising unemployment rates. Thus, the real question is, what would the employment effects of the minimum wage be if we could do an experiment—increase the wage, but have no other changes in the economy? Recent empirical research has attempted to do the econometric analysis that approximates this experiment.

Two researchers, David and P. Meyer, examine the impact of increases of about 50 cents.

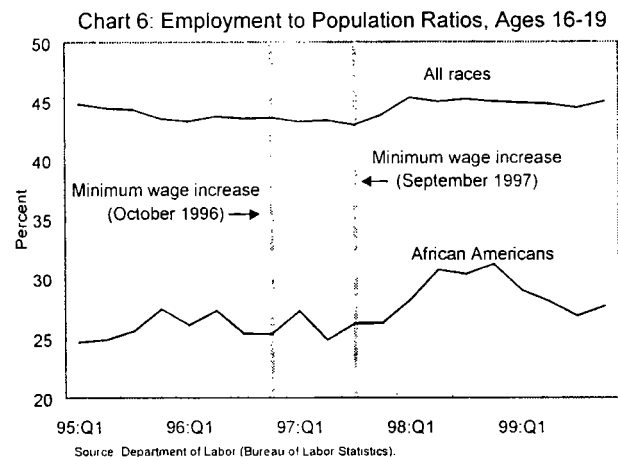
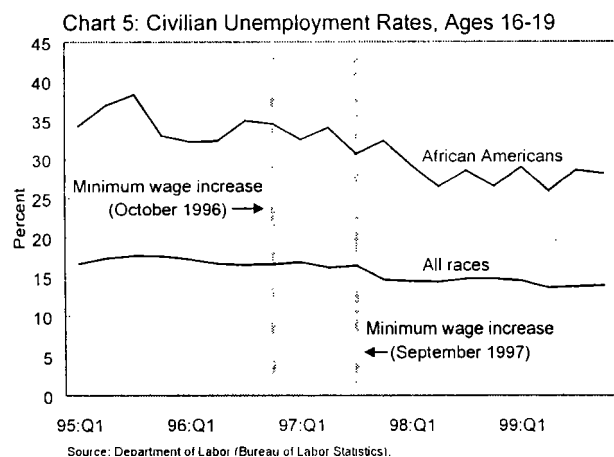
To determine the impact of minimum wages on employment, one would like to gather data from firms prior to a minimum wage increase and see how firms adjust employment relative to other

² One careful statistical analysis (Neumark, 1999) shows that the 1996-97 minimum wage increases had no effect on the general employment of 16-19 year olds.

similar firms for which the minimum wage does not increase. Two researchers, economists David Card and Alan Krueger (1995), examine the impact of a state-level increases in the minimum wage. In 1992, New Jersey imposed a higher minimum wage of xx, and the neighboring state of Pennsylvania did not, keeping the wage at xx. And then in 1996 an increase in the federal minimum wage affected Pennsylvania but not New Jersey. These two episodes provide an experiment that can be used to infer the effects of a minimum wage increase on employment. Card and Krueger use the BLS's employer-reported payroll files from 1991 through 1997 to evaluate employment growth of fast food restaurants in New Jersey and nearby counties in Pennsylvania. They conclude that the minimum wage changes had very little (and possibly slightly positive) effect on employment.³

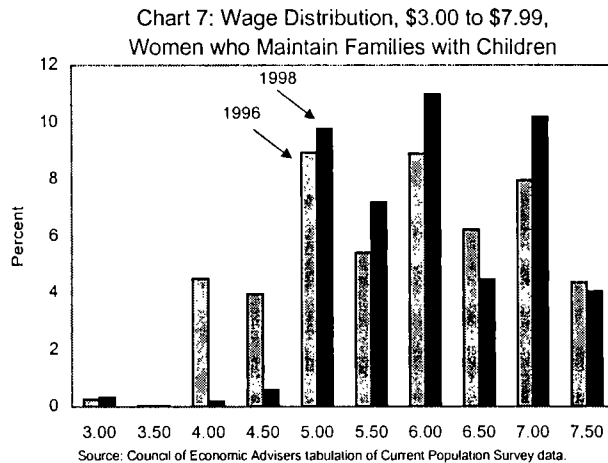
Thus, their work shows that there were no negative employment effects of moderate wage increases, even for teenagers, the group for whom any disemployment effects should be most apparent because they are the least skilled. Similarly, their detailed analysis fails to find disemployment effects of a minimum wage in the retail trade or in employment of fast food restaurants. They provide a critical analysis of previous research, and present their own extensive exploration of the wide variation in minimum wages across states found in the late 1980s and early 1990s. More recent studies confirm their initial results.

However, this experiment, of increasing the minimum wage and making no other changes, is hard to mimic in the real world where many changes take place simultaneously, and thus there are a variety of different estimates of the employment effects of the minimum wage, based on different data and different empirical methods. Dickens, Machin, and Manning (1999) studied the British experience with minimum wages. They found "...strong evidence that [minimum wages] compressed the distribution of earnings and no evidence that they have reduced employment."



³ While some critics of Card and Krueger expressed concern about their data collection, the most recent research uses BLS employment records and finds basically the same results.

4. WAGE EFFECTS OF THE MINIMUM WAGE



The \$0.90 increase in the minimum wage in 1996 and 1997 is estimated to have benefited almost 10 million American workers.⁴ This section examines the impact of this increase on the distribution of wages.

Recent increases in the minimum wage in the U.S. have improved the distribution of wages at the low end of the distribution. Fortin and Lemieux (1997) demonstrate the importance of the minimum wage in boosting wages at

the low end, and reducing wage inequality. They show that the decline in the real value of the minimum wage from 1979 to 1988 was responsible for approximately 24 percent of the increase in wage inequality experienced by men and about 32 percent of the increase in wage inequality for women. Card and Krueger (1995) conclude that the 1990-91 minimum wage increase reversed about 30 percent of the increase in wage inequality that occurred during the previous decade.

The effect of the recent minimum wage increase—in October 1996 and September 1997—on the nominal wage distribution is clearly evident in wage data. Statistics tabulated from the Current Population Survey (CPS), show that in the first two quarters of 1996, when the federal minimum wage was \$4.25, about 10 percent of all hourly wage workers earned less than \$5.00.⁵ The minimum wage increase (to \$5.15) clearly increased wages in the low end of the distribution; by the first two quarters of 1998, the fraction of workers earning less than \$5.00 declined to 2 percent.

Chart 7 illustrates the effect of the 1996-97 minimum wage increases on the low end of the wage distribution (\$3.00 to \$7.99) for just one demographic group of interest, women who maintain families and have at least one child present in the household.⁶ For 1996, the distribution of wages shows that a relatively small share of workers with hourly wages earn between \$3.00 and \$3.99.⁷ In contrast, a substantial fraction earned between \$4.00 and \$4.49. (The chart shows the

⁴ See Bernstein and Schmitt (1998).

⁵ The analysis presented in this paper excludes salaried and other non-hourly workers. Research has shown, however, that a relatively smaller number and share of salaried workers and others not paid by the hour have earnings that, when translated into hourly rates, are at or below the minimum wage. BLS does not routinely estimate hourly earnings for nonhourly workers because of data concerns that arise in producing these estimates. See Haughen and Mellor (1990) for further information.

⁶ A family maintained by a woman is one in which the householder (person in whose name the housing unit is rented or owned) is female, and no spouse is present. Here we examine such households when a child under 18 is present.

⁷ The presence of workers with reported wages below the minimum wage does not necessarily indicate violations of the Fair Labor Standards Act. There are several reasons why the reported wage for a worker may be below the Federal minimum. First, certain workers are exempt from the minimum wage provisions of the law, including workers for whom tips might serve to supplement the hourly wages received. Second, there may be a misreporting

2. BACKGROUND ON THE MINIMUM WAGE

A federal minimum wage of 25 cents was first established as a part of the Fair Labor Standards Act of 1938 (FLSA). Since its inception, the federal minimum wage has been increased 19 times, and the FLSA has been amended numerous times to expand the workers covered by the minimum wage provision. In recent years, about two thirds of wage and salary workers have been covered by the FLSA minimum wage. (Workers who are exempt most often are in executive, administrative, and professional occupations.)

[note: our graph uses CPI-U-RS for some and CPI-U for others, the NEC paper uses CPI-U (all items); should we adjust our deflator so that we are consistent with previously published numbers?]

Declining value of the minimum wage

The real value of the minimum wage has fluctuated as inflation erodes the real value of the ~~minimum wage~~, and increases restore some value. (See chart 2.) In 1968, the real value of the minimum wage attained the maximum of \$7.84, in 2000 dollars. Since then, the real value of the ~~minimum wage~~ has declined, as nominal increases have been more than offset by inflation. During the 1980s, the real value of the minimum wage fell from \$6.48 to \$4.65. Increases in the early and mid 1990s have mostly offset the inflation effects during the 1990s. Still, the real value of the minimum wage fell by 30 cents since the most recent nominal increase took effect in 1997 ~~and 2000~~.

Insert new chart 2

The minimum wage provides a meager living at best. For example, an individual who worked full-time¹ at the minimum wage in 2000 would have an income of \$10,300, which only reaches 75% of the poverty level for a family of three. ~~In 1997, the minimum wage would provide an income that was 77% of the poverty rate for a family of three. (See chart 3.)~~ This income is also only 21% of the median family income in 1999-down from 23% in 1997.

Insert new chart 3

The effects of the Earned Income Tax Credit

The income of low-wage workers is also supplemented by the Earned Income Tax Credit (EITC). Operating through the income tax system, ~~the EITC provides a wage subsidy for many low-income workers.~~ ^{very low-income families receive an income supplement} The amount of the ~~subsidy~~ depends on how much the family earns and on whether the family has zero, one, or two or more children. In 2000, families with two or more children received a subsidy of 40 cents for every dollar of earned income up to \$9,700, for a maximum credit of \$3,880. ~~This tax credit is refundable, so that even families who pay little or no income tax can benefit fully from the tax provision.~~ ^{Wage not higher in other families because tax is funded} Rather than falling to zero when earnings surpass \$9,700, the credit remains at \$3,880 until earnings reach \$12,700 and then gradually declines. For two-child families it phases out completely when earned income reaches \$31,152, ^{at which point families begin to pay taxes to the government.}

The EITC significantly affects the income of qualified individuals. For example, a family with two children and one full-time worker ^{who is} paid the minimum wage would be eligible for the full

¹ For the following illustrations, "full-time" is assumed to be 2000 hours in a calendar year.

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

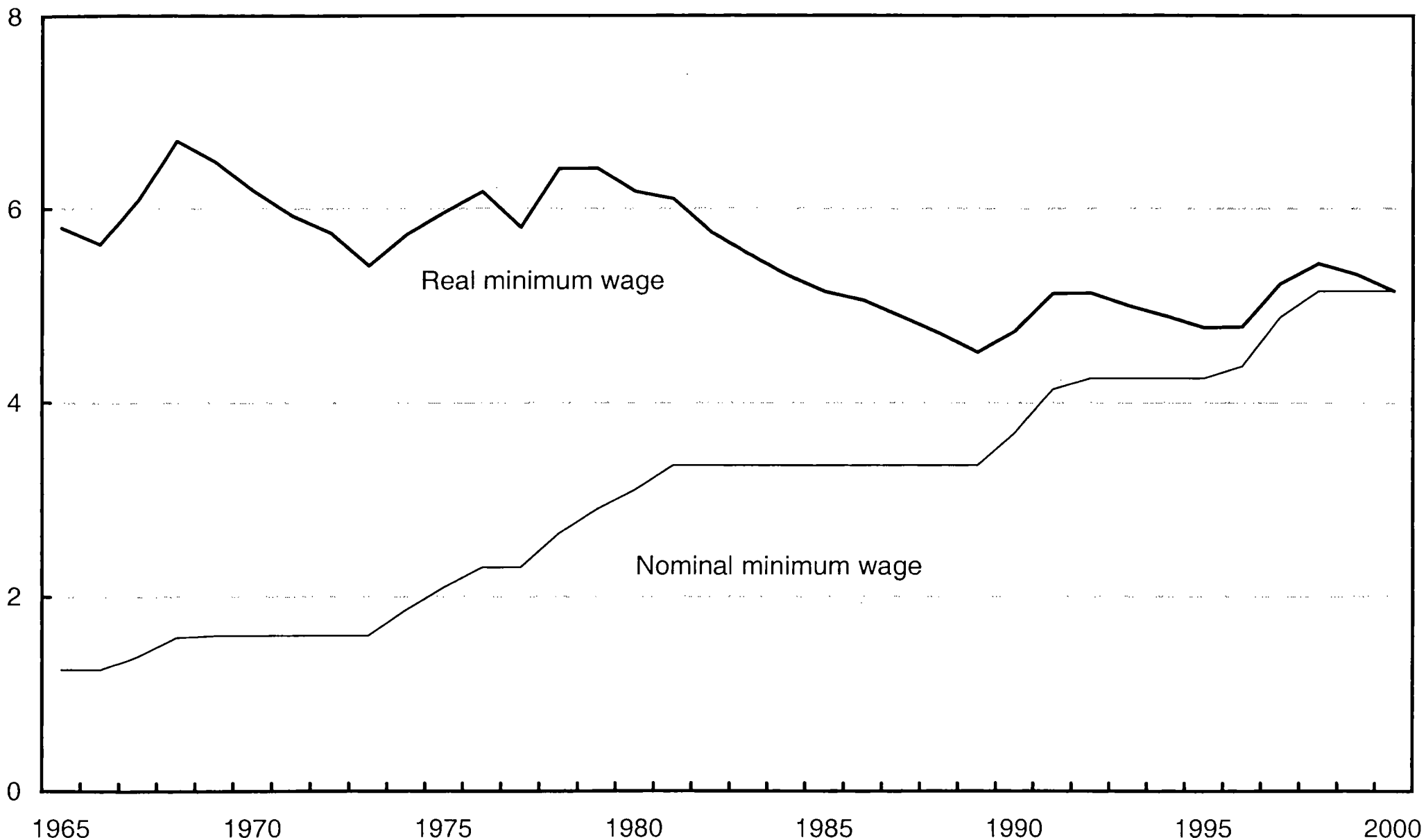
However, the EITC does not subsidize all minimum wage earners ~~this much~~. In fact, only about xx% of minimum wage earners would receive this maximum subsidy. Households with one child receive a 34% subsidy of wages to a maximum of \$2,312 [1999 figure, look up 2000]; households with no children receive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

all of these

Minimum Wage: Nominal and Real Values

Constant 2000 dollars

Chart



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

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

Full time earnings relative to median family income



4. RAISING THE MINIMUM WAGE: WHO IS DIRECTLY AFFECTED?

Increases in the minimum wage of the orders of magnitude similar to those of past increases would have a substantial effect on the incomes of low-wage workers. A total increase of \$1 an hour--less than the total increases legislated in 1977 (\$2.38 in 2001 dollars) or 1989 (\$1.16 in 2001 dollars) and similar to that in 1995 (\$0.98 in 2001 dollars)--would raise the annual earnings of a full-time worker by about \$2,000 a year. A study of spending by low-income families found that they spend on average about \$300 per month on groceries and about \$400 on rent. Thus, for a full-time worker, the minimum wage increase would translate into enough money to pay for nearly 7 months of groceries or 5 months of rent. An increase of \$1.50 (the average of the past three rounds of increases) would provide even greater benefits, increasing yearly income by \$3000.

Characteristics of Minimum Wage Workers in 2000

The majority of benefits of a minimum wage increase would accrue to those currently earning wages at, or just above the minimum wage.¹ Evidence on the characteristics of workers earning the minimum wage is available from unpublished tabulations provided by the Bureau of Labor Statistics (BLS) based on data from the CPS. In the third quarter of 2000, 72.8 million workers were paid at hourly rates, representing about xx percent of wage and salary workers. It is estimated that 828,000 workers earn a wage equal to the current \$5.15 Federal minimum. An additional 2.3 million workers earn wages below the federal minimum, indicating that 4.4 percent of hourly workers earned at or below the federal minimum.² This fraction is down from 4.6 percent in 1999. Earnings are an important source of income for many of these workers. A study by Bernstein and Schmitt (1998) indicated that in 1997 the earnings of average minimum wage workers accounted for 54 percent of their family's total earnings.

Selected demographic and economic characteristics for minimum wage workers are presented in Table 1 for the third quarter of 2000. The statistics indicate that nearly 60 percent of workers earning \$5.15 per hour were age 20 or older and 41 percent of these workers are over the age of 25. Sixty-one percent of minimum wage workers are women. Finally, 1.4 percent of women are paid hourly wages are earning the 0.8 percent of men paid hourly rates. There are also differences by race and ethnicity. 1.3 percent of African American hourly workers earned the minimum wage compared to 1.1 of whites and Hispanics.

How Many Workers would be Affected by an Increase in the Minimum Wage?

Using the CPS data described above, it is possible to estimate the number and characteristics of those with wage rates slightly above the current minimum wage and who would therefore also benefit from an increase in the minimum wage. We examine the characteristics of those earning within \$1 of the current minimum (\$5.16-\$6.14) and those earning between \$1 and \$1.5 above

¹ An increase in the minimum wage could have spill-over effects if employers increase the wages of those earning above the new minimum to maintain similar levels of relative wages..

² These are workers earning the legal sub-minimum training wage or the minimum wage applicable for tipped employees, as well as those illegally paid less than minimum wage.

the current minimum (\$6.15-\$6.64). Table 2 presents the number of individuals who currently have an hourly wage within each of these categories. This table indicates that:

- There are approximately 6.9 million workers within \$1 of the minimum wage—nearly 10 percent of all workers paid an hourly rate. An additional 3.4 million workers are within \$1 and \$1.50 of the minimum wage, or 4.6 percent of all hourly employees.
- 68 percent of those within \$1 are adults age 20 or older as are xx percent of those with wages between \$1.0 and \$1.5.
- About 60 percent of the first group of workers are women as are xx percent of the second.
- 16 percent of those earning between \$5.16 and \$6.14 are African American and 20 percent are Hispanic. The figures for those earning between \$6.15 and \$6.64 are xx.
- Among workers in the \$5.15-\$6.14 range, approximately 34 percent are the household head or a spouse who contributes to family income. Among those in the \$6.15-\$6.64 interval the fraction is xx percent.

Other studies have examined the potentially beneficiaries of an increase in the minimum wage, focusing on family and income characteristics. Some highlights from these studies are:

- Parents with children under 18 years old comprise almost 33 percent of those potentially affected. (Bernstein, Hartmann, and Schmitt, 1999).
- Over 50 percent of the proposed gains would go to households with incomes less than \$25,000 per year. (Bernstein, Hartmann, and Schmitt, 1999).
- 45 percent of the gains go to families with incomes below 200 percent of the poverty level, and an additional 19 percent to families with income below 300 percent of the poverty level. (Burkhauser, 1999).

Table 1: Employed Wage and Salary Workers Paid Hourly Rates with Earnings At or Below Minimum Wage, 1999

Characteristic	Number of workers (in thousands)		Percent distribution		Percent of workers in demo graphic group who earn \$5.15 or less
	Total paid hourly rates	Paid \$5.15 or less	Total paid hourly rates	Paid \$5.15 or less	
Total, 16 years and over	72,306	3,340	100.0	100.0	4.6
AGE					
16 to 19 years	6,600	1,006	9.1	30.1	15.2
20 and over	65,706	2,334	90.9	69.9	3.6
SEX					
Men, 16 years and over	36,073	1,214	49.9	36.3	3.4
Women, 16 years and over	36,233	2,126	50.1	63.7	5.9
RACE AND HISPANIC ORIGIN					
White	58,999	2,698	81.6	80.8	4.6
African American	10,126	515	14.0	15.4	5.1
Hispanic origin	9,402	513	13.0	15.4	5.5
FULL- AND PART-TIME STATUS					
Full-time workers	54,931	1,320	76.0	39.5	2.4
Part-time workers	17,227	2,010	23.8	60.2	11.7
FAMILY RELATIONSHIP					
Husbands	17,609	242	24.4	7.2	1.4
Wives	16,996	622	23.5	18.6	3.7
Women who maintain families	5,395	288	7.5	8.6	5.3
Men who maintain families	1,815	50	2.5	1.5	2.8
Other persons	30,491	2,082	42	62	28

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

Source: U.S. Department of Labor (Bureau of Labor Statistics), unpublished tabulations from the Current Population Survey, 1999 annual averages.

Table 2: Distribution of Wage and Salary Workers Paid Hourly Rates, 1999

Characteristic	Number (in thousands)		Percent distribution		Percent of workers in demographic group who falls in wage category	
	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14	\$5.15 to \$6.14	\$6.15 to \$7.14
Total, 16 years and over	10,093	8,370	100.0	100.0	14.0	11.6
AGE						
16 to 19	3,133	1,482	31.0	17.7	47.5	22.5
20 and over	6,960	6,888	69.0	82.3	10.6	10.5
SEX						
Men, 16 years and over	4,076	3,405	40.4	40.7	11.3	9.4
Women, 16 years and over	6,018	4,965	59.6	59.3	16.6	13.7
RACE AND HISPANIC ORIGIN						
White	8,027	6,668	79.5	79.7	13.6	11.3
African American	1,602	1,336	15.9	16.0	15.8	13.2
Hispanic	1,989	1,447	19.7	17.3	21.2	15.4
FULL- AND PART-TIME STATUS						
Full-time workers	4,563	5,301	45.2	63.3	8.3	9.7
Part-time workers	5,512	3,048	54.6	36.4	32.0	17.7
FAMILY RELATIONSHIP						
Husbands	851	990	8.4	11.8	4.8	5.6
Wives	1,821	1,962	18.0	23.4	10.7	11.5
Women who maintain families	855	807	8.5	9.6	15.8	15.0
Men who maintain families	171	167	1.7	2.0	9.4	9.2
Other persons	6,396	4,445	63	53	84	58

Note: Data exclude the incorporated self-employed. Detail for the above race and Hispanic-origin groups will not sum to totals because data for the "other races" group are not presented and Hispanics are included in both the white and black population groups. Also note that the distinction between full- and part-time workers is based on hours usually worked. These data will not sum to totals because full- or part-time status on the principal job is not identifiable for a small number of multiple jobholders.

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Recent Successes and Remaining Challenges

The current economic expansion has provided benefits to many Americans and low-income workers have shared in the gains. The fraction of workers with wages at or below the Federal minimum wage has fallen from 4.6 percent of all hourly workers in 1999 to 4.4 percent in the third quarter of 2000. In 1994, the minimum wage was just \$4.25 an hour and 6.2 percent of all hourly workers earned a wage at or below this level. When looking at the absolute number of workers in various categories the changes are often astounding. In 1994, 1,241,000 women, ^{women} women earned the minimum wage and this number fell to ~~700,000 in 1999~~ ^{not} and 505,000, all while the absolute number of women who were employed in jobs paid hourly wages rose. For men the decline in the number earning the minimum wage has been ^{not} from 891,000 in 1994 to 446,000 in 1999 to 322,000 currently.

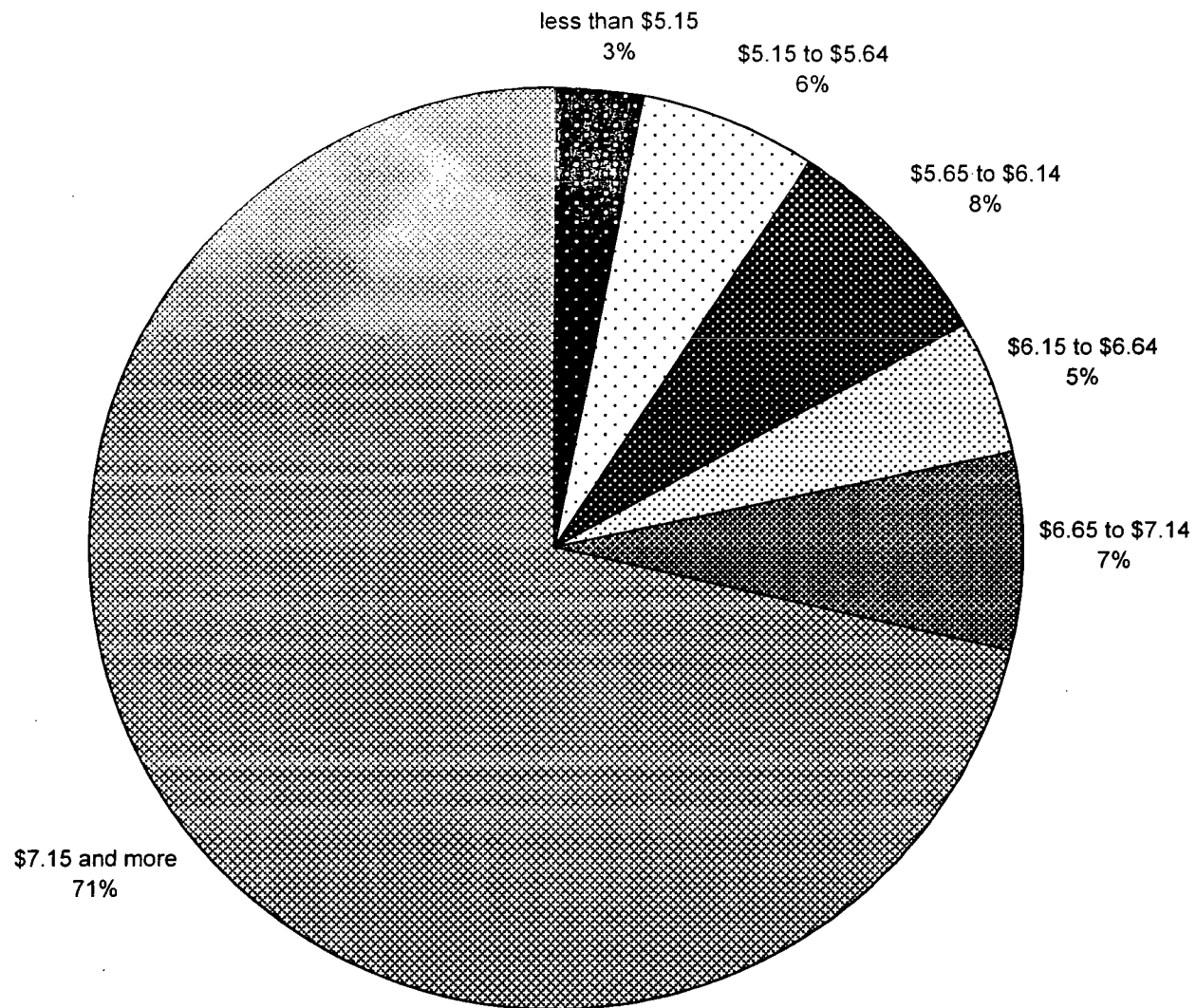
Improvements have also been evident across racial and ethnic lines. The number of white workers earning the minimum wage fell during these years from 1.66 million, to 1.15 million to 670,000. For African Americans the numbers were 356,000, 217,000 and 125,000. And for Hispanics the corresponding numbers were 401,000, 166,000 and 111,000.

The large gains obtained between 1999 and 2000 during which time the minimum wage was not increased, a test to the importance of the strong economy and other programs targeting low income workers. However, they also demonstrate that despite years of economic growth, many workers have wages that are ^{not} sufficient to move a family out of poverty. For a worker earning \$5.15 an hour in 2000 and working 2000 hours, annual earnings are just \$10,300, well below the poverty line for a family of four. Furthermore, since the last minimum wage increase in 1997 the population of minimum wage workers has become more likely to be supporting a family and more likely to be African American. Thus while many more workers now have wages above the Federal minimum, for those still working at minimum wage jobs increases in the real value of this wage are necessary if they are to be able to support their families.

At the same time, an increasing share of workers earned wages above \$6 and \$7, suggestive evidence that the increase in the minimum wage had spillover benefits for workers above the minimum wage. Such spillover effects have been documented more formally in research by Grossman (1983), Katz and Krueger (1992), and Card and Krueger (1994).

US Hourly Rate Workers by Wage Level, 1999

243 of 4926 emp.
did not reply



cerns public accommodation, the court addressed only Title I. It noted that the circuits are in dispute over whether a public employee is entitled to bring an employment claim under Title II.

Judges Morton I. Greenberg and Theodore A. McKee joined in the opinion.

Minimum Wage

Minimum Wage Hikes Raise Level At Which Jobless Rate Is Inflationary

A study by a Federal Reserve economist released this month concluded that increasing the relative value of the minimum wage raises the level at which the unemployment rate begins to exert inflationary pressures.

Fed researcher Peter Tulip in his research paper, *Do Minimum Wages Raise the NAIRU?*, argued that a 10 percent increase in the minimum wage relative to average wages appears to increase the nonaccelerating inflation rate of unemployment—or NAIRU—by about a half a percentage point. NAIRU, or full employment as it sometimes is called, is a theoretical concept that says inflation begins to accelerate when the unemployment rate falls below a certain level.

Most economists believe that this level changes over time. As late as the mid-1990s, many economists were predicting that if the unemployment rate remained below 6 percent, inflation would pick up. When this did not happen and the jobless rate dropped to 5 percent and then to its current 4 percent, many economists lowered their estimate of the NAIRU.

"Movements in the level of the minimum wage help explain the upward drift of the NAIRU in the USA over the 1960s and 1970s and its subsequent decline," the paper said. "They also help explain why the NAIRU has risen in continental Europe while falling in the USA. Much of the surprisingly favorable behavior of inflation and unemployment in the USA over the 1990s can be attributed to the lower level of the minimum wage."

The results reached by Tulip are not necessarily the views of the Fed, the central bank said in a disclaimer.

Although the study says increases in the minimum wage put upward pressure on the NAIRU, it does not offer a definitive reason for this phenomenon.

"The minimum wage can also increase the NAIRU if it causes other nominal wages to gradually increase, at a given rate of unemployment, and if these wage increases are passed on to higher prices," the report said.

Although the report mentions studies that suggest raising the minimum wage ratchets up other wages, it holds back from making judgments on their accuracy.

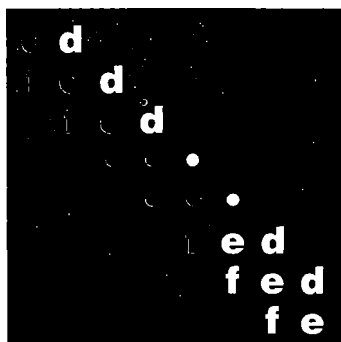
"The minimum wage might increase the NAIRU by reducing the demand for unskilled workers or by encouraging potential workers to look for work," the report said. "If these newly unemployed workers are ineffective searchers—perhaps because they are poor substitutes for other workers—they might put little downward pressure on wages. Higher unemployment would be associated with a similar wage outcome."

The latest increase in the minimum wage, in 1998, raised it to \$5.15 an hour. Several proposals are cur-

rently languishing in Congress to raise the minimum wage again.

The report is available on the Internet at <http://www.federalreserve.gov/pubs/feds/2000/200038/200038pap.pdf>.

NEWS



Finance and Economics Discussion Series

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Federal Reserve Board, Washington, D.C.

Minimum Wage Careers?

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Minimum Wage Careers?

William J. Carrington

Bruce C. Fallick*

August 1999

ABSTRACT

This paper investigates the extent to which people spend *careers* on minimum wage jobs. We find that a small but non-trivial number of NLSY respondents spend 25%, 50%, or even 75% of the first ten years of their career on minimum or near-minimum wage jobs. Workers with these minimum wage careers tend to be drawn from groups such as women, blacks, and the less-educated that are generally overrepresented in the low-wage population. The results indicate that lifetime incomes of some workers may be supported by a minimum wage. At the same time, these same groups would be disproportionately affected by any minimum wage-induced disemployment. The results suggest that minimum wage legislation has non-negligible effects on the lifetime opportunities of a significant minority of workers.

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I. Introduction

Minimum wage policy must balance the beneficial effects of the minimum wage on individuals' earnings against the potentially adverse effect on employment. Since young people are most likely to work at minimum wage jobs, most minimum wage research has focussed on teens and young adults.¹ The emphasis on teens is appropriate to the extent that the effects of minimum wages, whatever they may be, are transitory because young workers soon age into higher wage jobs. Yet there is evidence that the minimum wage may effect some older workers as well. For example, Card and Krueger (1995) estimate that over half the workers affected by the April 1990 minimum wage increase were over the age of 24. This and other facts suggest that some workers might be effected by the minimum wage well into their careers. In this paper we ask whether some workers spend a significant portion of their post-teen, post-school years on - or earn a significant portion of their earnings from - minimum wage jobs. In short, we ask whether some workers have minimum wage careers.

There is already a short literature on this topic. Smith and Vavrichek (1992) examined the one-year earnings mobility of workers that initially worked at minimum wage jobs. They found that 63% of the minimum-wage workers in their sample were employed at higher-than-minimum wage jobs one year later. Schiller (1993) found that "only 15 percent of the 1980 entrants still had any (minimum wage) experience after three years," which suggests that long-term minimum wage employment is rare. More than three quarters of Schiller's sample were still attending school while working at this first job, however, and relatively few of the sample workers had embarked on their post-school career.²

¹ Most research in this area has addressed the effects of the minimum wage on employment. Research on other effects of the minimum wage include work on schooling decisions (Ehrenberg and Marcus, 1982; Currie and Fallick, 1991; Neumark and Wascher, 1993), on-the-job training (Hashimoto, 1982; Schiller, 1993), and crime (Chressanthi and Grimes, 1990). Studies on the major intended benefit, changing the distribution of income in favor of low-income households include Behrman, Sickles, and Taubman (1983), Burkhauser and Finegan (1989), Johnson and Browning (1983), Martin and Giannaros (1990), Smith and Vavrichek (1987), and Loveman and Tilly (1988).

² Recognizing the apparent differences between this group and the members of the sample who were no

We concentrate on workers who have finished school, and so presumably embarked on their careers. Using the National Longitudinal Study of Youth (NLSY), we follow a large sample of workers after they “permanently” leave school. We find that upon leaving school the vast majority of workers quickly move into wage ranges effectively outside the bounds within which minimum wages might be expected to have an effect. Thus, minimum wages have virtually no effect on the careers of most workers. However, we identify a non-trivial fraction of workers that spend substantial portions of their post-school career on minimum or near-minimum wage jobs. For example, we estimate that over 8% of workers spend at least 50% of their first ten post-school years working on jobs paying less than the minimum wage plus \$1.00. We find that workers with such “minimum wage careers” are largely drawn from demographic groups with generally low wages: women, minorities, and the less-educated. Thus, while relatively few in number, there is an identifiable sub-population of workers whose lifetime income and employment is likely to be effected by minimum wage policy. For individuals in this group, minimum wage policy does not have merely transitory effects.

The rest of this paper is organized as follows. Section II places our NLSY results in context by examining the incidence of minimum and near-minimum wage jobs among workers in the Current Population Survey (CPS). The CPS provides useful point-in-career or point-in-time estimates of minimum wage job holding. The large sample size and broad age coverage of the CPS make it useful background information, but its cross-sectional nature lead us to expend most of our efforts on the NLSY. Section III exploits the longitudinal structure of the NLSY to calculate the proportion of workers’ early careers spent on minimum wage jobs. The section also examines the relative incidence of such minimum wage job-holding across various demographic groups. Section IV concludes.

longer in school in 1980, parts of Schiller’s analysis treats the two groups separately.

II. Overview from the CPS

Our analysis in this paper is centered on the NLSY because we need panel data to accurately gauge the presence or absence of minimum wage careers. Before doing so, however, we think it useful to take a broader look at the incidence of minimum wage jobs over the life cycle. The Outgoing Rotation Groups from Current Population Survey (CPSORG) provide estimates of hourly wage rates for a very large sample of workers over all age groups.³ For two recent years, 1993 and 1994, we extracted information on all workers between ages of 16 and 65 who we estimated were making at least one dollar per hour. We then characterized each worker as having a minimum wage job depending upon whether they were within \$.25, \$.50, \$1.00, or \$2.00 of the prevailing minimum wage (i.e., the higher of the federal or the relevant state minimum wage). Figure 1 graphs the fraction of the population in each age group characterized as having a minimum wage job under these four criteria.

Figure 1 indicates that the incidence of minimum wage jobs is very high among teenagers. Roughly 40% of 16-year olds in these two calendar years were employed at jobs paying less than the minimum wage plus \$.25, and virtually all 16-year olds reported working at jobs paying less than the minimum wage plus \$2.00. In addition, Figure 1 indicates that the incidence of minimum-wage job-holding drops off quickly as workers age. For example, the fraction of working 25-year olds with minimum wage jobs is estimated to be only 5.5% for the minimum plus \$.25 cutoff, and 14.6% for the minimum plus \$1.00 cutoff. Figure 1 therefore supports the view that teenagers tend to work at minimum wage jobs, but that workers move out of minimum wage jobs as they acquire schooling and experience.

Despite the movement of most workers into higher-paying jobs, Figure 1 leaves open the possibility that aging cohorts leave some workers behind in minimum wage jobs for substantial fractions of their careers. In particular, Figure 1 shows that while the fraction of workers in minimum wage jobs

³ In contrast, the NLSY is relatively small and focussed on younger workers. The oldest NLSY

goes down significantly as cohorts age, it never gets to zero. For example, even among workers in their peak earning years of the mid-40's, approximately 2.5% of workers are at jobs paying less than the minimum plus \$.25, and approximately 8% of workers are at jobs paying less than the minimum plus \$1.00. If the identity of these workers changes from year to year within a cohort, then there are few workers we might characterize as having a minimum wage career. If the identity of minimum wage workers does not change, however, then there will be a minority who persistently work at minimum wage jobs. Distinguishing between these polar cases requires panel data on workers' careers, of course, and the CPSORG files are of limited use in this regard.

Figures 2 and 3 present figures analogous to Figure 1 with the exception that Figure 2 is based on a sample of women and Figure 3 is based on a sample of blacks. The figures for these two groups are very similar to the aggregate patterns revealed in Figure 1. Teenagers are extremely likely to work at minimum or near-minimum wage jobs, but workers in both groups move to higher-paying jobs as they age and acquire education and work experience. Comparisons across graphs show, however, that the incidence of minimum wage job-holding is substantially higher for women and blacks than it is for the population at large. This is not surprising given that these groups are generally overrepresented in the low-wage labor market. Nevertheless, the graphs highlight that some groups may be more likely than others to have truly extended periods of minimum wage employment. Our analysis of the NLSY will take up this issue in some detail.

III. Longitudinal Analysis of the NLSY

The National Longitudinal Survey of Youth (NLSY) began in 1979 with 12,686 men and women between the ages of 14 and 21. The NLSY has five distinct panels: a) a nationally representative "cross-sectional" sample and four oversampled groups: b) blacks, c) Hispanics, d) economically disadvantaged

respondent was 36 in 1994, the last year of data examined in our study.

whites, and e) members of the military. Following the suggestion of MaCurdy, Mroz, and Gritz (1998), we exclude the poor whites and the military from our analysis.⁴ Using the combination of the black, Hispanic, and cross-sectional samples implies that blacks, Hispanics, and other groups are included in the sample with differing probabilities. In such circumstances, survey weights are required to make statements about the aggregate U.S. population. The original NLSY weights are inappropriate, however, as they are based on the inclusion of the military and poor white subsamples. For this reason, we use the 1979 weights of MaCurdy, Mroz, and Gritz (1998), which are designed to make the restricted sample we use nationally representative.

We restrict our attention to the portion of each respondent's life that occurs after they first leave school for at least two years. Although a few workers may go back to school at some later date, this restriction focusses attention on the portion of individuals' work-life that might be appropriately termed "career" work. In contrast, work before this point is generally stop-gap work between periods of schooling, or a source of income in the midst of schooling. There are some NLSY respondents for whom we were unable to accurately characterize the first year of career work, largely because of missing data, and we excluded such workers from our analysis. This and other exclusion restrictions naturally raise issues of selectivity. We will consider this issue later in the paper, although we have no completely satisfactory answer to the question of how sample selection effects our results.

Our goal is to calculate the fraction of each worker's career spent on minimum wage jobs. This goal requires that we accurately characterize a worker's minimum wage status over each year within a career. There are four reasons why this may be impossible for some workers in some years. First, there may be no valid wage because the worker went back to school (after at least a two-year hiatus), because the worker neither worked nor went to school, or because the information was missing from the

⁴ The military sample is omitted because its respondents were generally not followed after 1983, and the economically disadvantaged whites were dropped because of concerns regarding its sample frame (MaCurdy, Mroz, and Gritz, 1998).

interview. Second, we may not know the prevailing minimum wage due to missing information on the worker's state. Third, some workers attrit from the sample, although MaCurdy, Mroz, and Gritz (1998) suggest that this imparts little biases to most measures of labor market activity.

Finally, the fact that the last year of the NLSY we use is 1994 leads to somewhat non-random selection when we examine behavior farther out into workers' careers.⁵ Recall that the NLSY began with people between 14 and 21 in 1979. For people who end their education with high school, we almost always have at least 10 years of post-school observations. For people finishing a college degree at the age of 22, however, we will have 10 years of post-school data for the older NLSY respondents, but not for the younger respondents. This reasoning suggests that as we look further out into people's careers, the sample becomes increasingly selective with respect to schooling. For example, the sample of workers for whom we have 10 years of post-school data has slightly lower initial schooling than the corresponding sample for whom we have 5 years of post-school data. This selectivity is less acute for the earlier birth cohorts within the NLSY, since we have many years of post-school data for almost everyone in these cohorts, whereas the selectivity on education is more severe for the later cohorts within the NLSY. This fact leads us, in some instances, to focus on the earlier birth cohorts to minimize this selectivity.

Table 1 displays some basic attributes of our NLSY sample.⁶ The table presents summary statistics by "Years Into Career," which is defined as the number of years elapsed since the worker first left school for at least two years. The sample is restricted to those workers for whom we could determine their minimum wage status. Looking at the bottom row of the table first, note that the number of observations included in the sample decreases from 4,322 in the first year of the career down to 3,494 in the tenth year of the career. Again, this occurs because of survey attrition, because the younger and more

⁵ The NLSY did not interview respondents in 1995, as part of the survey's move to a biannual survey schedule. Surveys were administered again in 1996, but the two-year gap led the 1996 data to be of limited use in the analysis.

highly educated have not had as many post-school years by 1994, and because some people drop out of the workforce and do not report a valid wage. This latter phenomenon is partly driven by women dropping out of the workforce to raise children, as can be seen by the gradually decreasing share of women in the sample as we look further out into people's careers. For example, women account for 48.5% of our sample one year into career, but 46.3% at ten years into a career.

Table 2 begins to look at the minimum wage job experience of our NLSY sample. For each year into the career, the table reports the fraction of the sample whose wage is within \$.25, \$.50, \$1.00, \$1.50, or \$2.00 of the prevailing minimum wage. We have several reasons for defining "minimum wage jobs" in these alternative fashions. The lowest threshold, the minimum wage plus \$.25, is our preferred method for characterizing workers currently on a minimum wage job. Given the possibility of misreporting and division bias (hourly wages are sometimes calculated by dividing earnings by reported hours), it seems reasonable to allow for some measurement error in characterizing jobs as minimum wage or not. Our interest in the higher thresholds (minimum + \$.50, minimum + \$1.00, etc.) are motivated in part by measurement error, but also because workers below these higher bands may be effected by the minimum wage in other ways. For example, Grossman (1983) and Card and Krueger (1995) study the possibility of ripple effects, i.e., that the minimum wage may result in wage increases for workers slightly above the minimum.⁷ As another example, future increases in the minimum wage are likely to be in this range, so it is useful to consider the broader class of workers that might be affected by higher minimum wages that are within the range of future policy options.

Table 2 indicates that a substantial fraction of workers start their careers on jobs that pay near-minimum wages. For example, roughly 30% of workers in our sample held initial jobs within \$.25 of the minimum wage, and over 50% of the sample held a job that was within \$1.00 of the prevailing minimum.

⁶ All statistics are calculated using NLSY 1979 sample weights.

⁷ The basic idea behind such ripple effects is that raising the price of minimum wage labor may increase demand for close substitutes, and that near-minimum wage labor is likely to be the closest substitute.

Thus, for most workers, initial jobs are at a wage that might be affected by significant changes in the minimum wage. As workers age, however, they gradually move out of jobs within range of the minimum wage. For example, by the eighth year of their career less than eight percent of our sample worked on jobs paying less than the minimum plus \$.25, and roughly fourteen percent worked on jobs paying less than the minimum plus \$1.00. Thus, minimum wage work, however defined, is disproportionately done by inexperienced workers.

Table 3 examines the evolution of minimum wage exposure from a different angle. If we divide workers into two groups based on whether or not their wages are above the minimum wage plus \$.25, then there are four possible transitions that can be made across any pair of years. Rows 1 and 2 of table 3 report the probabilities of being on (row 1) or off (row 2) a minimum wage job in year t , conditional on having held a job that paid more than the minimum wage plus \$.25 in year $t-1$. Rows 3 and 4 report the same probabilities conditional on having held a job that paid less than the minimum wage plus \$.25 in year $t-1$. The columns of table 3 examine these transitions across adjacent pairs of years that move farther out into workers' careers as the table moves from left to right. An example of how to interpret the table is that the "10.5" entry under row 1 (entitled " $\text{Prob}[\text{Min}(t)=1|\text{Min}(t-1)=0]$ ") and the 1→2 column indicates that 10.5% of the people with non-minimum wage jobs in the first year of their career went on to hold a minimum wage job in their next year of work.

Row 1 of table 3 indicates that transitions from non-minimum to minimum wage jobs are rare, particularly as workers get further out into their careers. Row 2 shows that the analogous transitions from non-minimum to non-minimum wage status are correspondingly high, as of course they must be since the sum of rows 1 and 2 must be 1 for any column. Thus, once workers find a job above the minimum wage, they rarely go back to lower-paying minimum wage work. Rows 3 and 4 report the analogous probabilities for transitions out of minimum wage work. These rows show that the odds of a minimum wage worker finding an above-minimum wage job in the following year are in the 40%-50%

range throughout the first ten years of workers' careers.⁸ Thus, workers are much more likely to escape from minimum wage employment than they are likely to fall back into such low wage jobs after an initial period at higher-paying jobs. Plugging these transition rates into standard stock-flow identities yields the prediction that minimum wage work becomes increasingly less likely as cohorts age, which is of course what the previous results showed.

These patterns are broadly consistent with the transitions made by the synthetic cohorts extracted from the CPSORG. Note that transitions in the two samples are not directly comparable, as the synthetic panel of the CPSORG acquires schooling and experience over time, whereas the true panel of the NLSY acquires only experience (since they have left school permanently in most cases).⁹ Nevertheless, in both samples there is a dramatic transition out of minimum or near-minimum wage jobs as cohorts age.

However, it also true that a significant minority of workers remain in such jobs as they age and gain experience. With the results presented so far, it is not possible to ascertain whether such minimum wage workers represent a stable minority of workers, or whether instead the identity of minimum wage workers changes from year to year. Obviously, the existence of minimum wage careers hinges on the answer to this question.

Table 4 presents information on the fraction of workers' careers spent on minimum wage jobs. In particular, we created for each worker a series of variables of the form $\text{share}(x,y)$ that measure the fraction of the workers first y career years spent on jobs paying less than the minimum wage plus \$ x . Thus, as an example, the 14.6 entry under the table where $x=.25$ and $y=6$ indicates that the average

⁸ These figures are similar to the transition rates that Smith and Vavrichek (1992) estimated using the Survey of Income and Program Participation (SIPP).

⁹ For any worker, we define the "first career year" to be the first year of the first two-year period in which they do not go to school. Some workers eventually do go back and obtain further education such as GED's or graduate degrees. Thus, the NLSY panel does acquire some education as they move further out into their career. The acquisition of graduate degrees is probably unimportant from our perspective, since people acquiring such degrees were probably not employed in minimum wage work prior to their return to school. In contrast, the GED may be an important element of workers' escape from minimum wage work.

worker spent 14.6% of their first six career years on jobs that paid less than the prevailing minimum plus \$.25. The results indicate that, depending on how we define “near-minimum,” a substantial fraction of these cohorts’ first ten years were spent on minimum or near-minimum wage jobs. For example, the mean worker in this sample spent 29% of their first six years on jobs paying less than the minimum wage plus \$1.00, and 35% of their first ten years on jobs paying less than the minimum wage plus \$2.00. Thus, Table 4 indicates that a substantial portion of most workers’ early careers are spent on minimum or near-minimum wage jobs.

Table 4 may overstate the importance of minimum wage jobs by weighting all years equally. If workers can shift resources over the life-cycle, or if intergenerational transfers ease the burden of low income in one’s early years, then the salience of minimum wage job-holding would be better measured by weighting years by the wage received. That is, one may be interested in the proportion of a person’s career income received on minimum wage jobs. To follow this line of reasoning, tables 5 and 6 repeat the analysis of table 4 with the exception that the fraction of years on minimum wage jobs are weighted by the nominal wage (table 5) or the real wage (table 6).¹⁰ The tables indicate that weighting by either nominal or real wages significantly reduces the importance of minimum wage jobs in the first ten years of a career. However, there are still a non-trivial number of years spent on minimum wage jobs under either metric. For example, table 5 indicates that, when years are weighted by nominal wages, the mean worker spends roughly 20% of their first ten career years on jobs paying less than the minimum wage plus \$1.50. As a second example, table 6 indicates that when years are weighted by real wages, the mean worker spends 10% of their first nine career years on jobs paying less than the minimum wage plus \$.50.

The preceding tables indicate that the NLSY cohort continued to hold minimum wage jobs as they gained experience, albeit with decreasing frequency. It still remains to be seen whether there is any variation across respondents in the fraction of time spent on minimum wage jobs. Table 7 begins to

¹⁰ Price deflators are based on the Consumer Price Index – Urban series.

address this question. Recall that $\text{share}(x,y)$ is the share of the first y career years spent on a job paying less than the prevailing minimum plus $\$x$. Table 7 asks whether there is much variation in $\text{share}(x,y)$, with a particular eye on the right tail of the distribution. In particular, table 7 reports the fraction of the population for whom $\text{share}(x,y)$ is greater than Z for $Z=.25$, $.50$, and $.75$. As an example, the entry for the Years Into Career = 5 row under the $X=.50/Z=.75$ column indicates that 6.1% of the sample spent more than 75% of their first five career years on jobs that paid less than the prevailing minimum plus \$.50. As a second example, the entry for the Years Into Career = 9 row and the $X=1.50/Z=.25$ column indicates that roughly 26% of the sample spent at least 25% of their first nine career years on jobs that paid less than the minimum plus \$1.50.

Table 7 exploits the panel nature of the data to show the extent to which some workers are continually employed in minimum or near-minimum wage jobs. The figures indicate that few workers consistently hold minimum or near-minimum wage jobs. It could hardly be otherwise, given the low incidence of minimum wage job-holding seen in the cross-sectional comparisons of the previous tables. There is, however, a non-negligible subset of the population that continues to work at near-minimum wages throughout much of their early career. For example, table 7 indicates that almost 4% of the population spends at least 50% of their first nine post-school years working at jobs paying less than the minimum plus \$.50. As another example, table 7 indicates that roughly 5% of the population spends over 75% of their first eight post-school years working at jobs paying less than the minimum plus \$1.00. For these workers, it is clear that minimum wage policy has potentially long-ranging effects.

It is important to keep the results from earlier tables in mind when interpreting table 7. In particular, although some workers nine or ten years into their careers have spent a significant cumulative time on minimum wage jobs, these figures overstate the number that are on minimum wage jobs this far out. The overstatement occurs because most workers accumulate minimum wage job experience most quickly in the first few years of their career. Nevertheless, there are significant fractions of workers in

minimum wage jobs after several years of post-school experience have been accumulated. For example, table 2 showed that roughly 8% of the population held a job paying less than the minimum plus \$.50 ten years into their career. Thus, the proportion of workers with “minimum wage careers” will not necessarily go to zero as cohorts age. Some workers remain at minimum wage jobs far into their careers.

Which groups are particularly likely to have such minimum wage careers? It is natural to look at groups with generally low wages, since they are likely overrepresented in the minimum wage population. Tables 8 and 9 reproduce table 7 for samples comprised solely of blacks (table 8) or women (table 9). Table 8 shows that, like the broader population, few blacks are consistently employed at minimum wage jobs for the duration of their early careers. For example, table 8 indicates that only 11.3% of the black population spent at least 50% of their first nine post-school years on jobs paying less than the minimum plus \$1.00. As another example, the table indicates that roughly 3.4% of the black population spent more than 75% of their first eight post-school years on jobs paying less than the minimum plus \$.50. Thus, extended exposure to minimum wage jobs is the exception rather than the norm for black workers.

As with the broader population, however, there is a subset of black workers with extended stays in minimum wage jobs. Further, the proportion of black workers in such jobs is substantially higher than for non-blacks. For example, roughly 13% of the black population spent more than 75% of their first eight post-school years on jobs paying less than the minimum plus \$1.50, whereas the corresponding figure for the full sample was only 8.5%. Thus, blacks are overrepresented in the minimum and near-minimum wage population.

Table 9 examines similar figures for women. On this dimension, the labor market experience for women as a group are very similar to those for blacks. True “minimum wage careers” are quite rare among women, as most women spend only a small fraction of their careers on minimum or near-minimum wage jobs. However, women are substantially more likely than men to have extended stays in minimum or near-minimum wage jobs. For example, approximately 4.2% of women spend over 75% of

their first nine post-school years working in jobs paying less than the minimum plus \$1.00. Again, this is not surprising given that women are generally overrepresented in the low-wage population.

To conduct a more systematic analysis of the determinants of minimum wage careers, we estimated linear regression models in which the dependent variable was the fraction of time spent on jobs paying less than the minimum wage plus \$1.00. The right-hand side variables in this analysis included race and sex, but also years of schooling, age, number of children, an urban dummy, and measures of the father's and mother's education. Table 10 reports the results of this analysis for five, eight, and ten years out into a career.¹¹ The results are broadly consistent with expectations based on general analyses of the wage distribution. For example, being highly educated and living in an urban area are both strongly correlated with *not* having a minimum wage career. In addition, consistent with the preceding tables, blacks and women are more likely than white males to spend significant portions of their career in minimum wage jobs. Finally, the presence of children is positively correlated with minimum wage job-holding for women, but negatively correlated for men. These relationships are all consistent with previously established patterns of wage variation.

Table 11 presents fitted values for hypothetical workers based on the models of table 10. Predictions for five, eight, and ten years into careers are presented in panels A, B, and C, respectively. The rows within each panel vary by race, sex, and urban/rural designation, and each row presents estimates for five different levels of education. All other variables are set to sample means. An example of how to read the table is that the top left entry indicates that the model predicts that a black rural woman is predicted to have spent 63% of her first five career years in jobs that paid less than the minimum wage plus \$1.00. The models obviously predict that the incidence of minimum wage careers varies dramatically across demographic groups. Rural high-school dropouts, particularly women and blacks,

¹¹ We obtained similar results when we estimated analogous models using a logit specification. In addition, standard errors in table 10 take account of stratification and clustering in the design of the survey.

are likely to spend substantial fractions of their careers on minimum wage jobs. Since these models use the minimum plus \$1.00 distinction, the models predictions would differ if we used alternate bifurcations such as the minimum plus \$.25 or the minimum plus \$2.00.

There are two related questions about the results presented here: sample selection and weighting. We interpret our results as if they accurately portray patterns of minimum wage job holding in the U.S. population. If we merely applied the MaCurdy, Mroz, and Gritz weights to all workers present in the three NLSY panels we use, then we are justified in making this interpretation. However, there are two reasons why some original NLSY respondents are omitted from the samples on which are estimates are based. The first reason is attrition, i.e. the fact that some respondents drop out of the survey. MaCurdy, Mroz and Gritz provide a set of updated weights that are designed to make latter rounds of the NLSY nationally representative. We experimented with these latter year weights, and it made very little difference in our results. This finding is consistent with MaCurdy, Mroz, and Gritz' (1998) finding that attriters were not drawn from any one part of the wage or employment distribution. Thus, we don't believe that attrition is a major source of bias in our results.

The second reason why respondents are omitted from our sample is that we can not accurately characterize their minimum wage experience over their careers. This occurs sometimes because we can not reliably date the start of respondents' post-school career, but more often it occurs because respondents did not report a valid wage in one or more years, typically because they did not work at all. This implies that our results should be viewed as statements about the incidence of minimum wage careers among the restricted population of workers with stable employment histories. It seems reasonable to suppose that non-workers, were they to take jobs, would probably have lower wages than those who do work, and thus that they would have more exposure to minimum wage jobs. This in turn implies that our results might understate the incidence of minimum wage *opportunities* among the broader population of workers and non-workers. It is also easy to imagine that this type of selection

would lead the regressions of table 10 to understate the correlation of some characteristics, race for example, with minimum wage opportunities.

We explored this idea by estimating maximum likelihood versions of Heckman's selection equation. The results vary somewhat depending upon which of the non-sample respondents (i.e. those respondents who didn't meet all our selection criteria) we include in the first stage probit equation. In all cases we've examined, however, the wage equation of the two-equation Heckman model yields parameter estimates similar to those reported in table 10. One problem with this exercise is that we can identify no reasonable a priori exclusion restrictions for the wage equation, so that the selection effect is identified solely on the basis of functional form. Thus, we view this exercise as only a partial answer to whether our results would differ in a fully representative sample.

IV. Concluding Remarks

This paper has examined whether some workers are in minimum or near-minimum wage jobs for substantial fractions of their post-school careers. Following previous work, we show that many workers begin their post-school careers in jobs paying the minimum or something close to it, but that the vast majority of workers move on to higher-paying jobs as they accumulate experience. However, there is a non-trivial fraction of workers who spend substantial portions of their early careers consistently working in minimum wage jobs. We only examine respondents' first ten post-school years, so it is possible that further wage growth will take all workers out of minimum wage work as they acquire experience. The fact that wages grow much more quickly in the initial stages of work careers, however, suggests that some workers will continue to be left behind in minimum wage careers. Less educated people, blacks, women with young children, and workers who reside outside of SMSAs are much more likely to have such minimum wage careers. In short, there are particular groups whose lifetime incomes may be supported by a minimum wage. By the same token, any disemployment effects of the minimum wage

may apply to these same groups throughout their careers. Further research is necessary to see whether these results hold farther out into people's careers and in other time periods. Nevertheless, the results suggest that minimum wage legislation has non-negligible effects on the lifetime opportunities of a significant minority of workers.

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Table 1
Sample Means
By Years Into Career

<u>Variable</u>	<u>Years Into Career</u>					
	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>	<u>8</u>	<u>10</u>
Education at this point of career	12.8	12.8	12.9	12.9	13.0	13.0
Age at this point of career	20.1	21.1	23.1	25.1	27.1	29.1
Year of first job	1981.5	1981.5	1981.5	1981.5	1981.5	1981.5
Female =1	48.5%	48.9%	47.9%	46.6%	46.5%	46.3%
Black = 1	12.3%	11.9%	11.5%	11.7%	12.0%	11.9%
Urban =1	79.4%	79.0%	80.0%	78.9%	79.1%	78.8%
Father's education as of 1979	11.8	11.9	11.9	11.9	11.9	11.8
Mother's education as of 1979	11.6	11.6	11.7	11.6	11.6	11.6
Number of observations	4322	4066	3689	3608	3552	3494

Notes: All numbers derived from authors' calculations from National Longitudinal Survey of Youth.
Sample for each year restricted to those people for whom we could determine whether or not they were working at a minimum wage job.

Table 2
Share of Population on Minimum or Near-Minimum Wage Jobs
By Years Into Career

<u>Years Into Career</u>	<u>Percent of Population Within \$X of the Minimum Wage</u>				
	<u>X=.25</u>	<u>X=.50</u>	<u>X=1.00</u>	<u>X=1.50</u>	<u>X=2.00</u>
1	30.5	38.7	54.5	64.3	72.6
2	23.4	30.2	42.4	52.4	62.0
3	16.7	21.8	31.9	42.0	50.8
4	13.5	17.2	25.6	33.9	42.9
5	10.5	14.0	21.0	28.0	37.0
6	9.2	12.0	17.9	24.2	32.4
7	8.6	10.4	15.8	20.6	27.5
8	7.7	9.5	14.4	18.2	25.2
9	7.3	8.8	12.7	17.1	22.5
10	7.3	8.6	12.2	15.1	20.3

Source: Authors' calculations from National Longitudinal Survey of Youth.

Table 3
Transition Rates Into and Out of Minimum Wage Employment
By Years Into Career

	Year(t-1) → Year(t)								
	<u>1→2</u>	<u>2→3</u>	<u>3→4</u>	<u>4→5</u>	<u>5→6</u>	<u>6→7</u>	<u>7→8</u>	<u>8→9</u>	<u>9→10</u>
1. Prob[Min(t)=1 Min(t-1)=0]	10.5	8.4	6.7	5.3	4.7	4.6	4.3	3.8	3.7
2. Prob[Min(t)=0 Min(t-1)=0]	89.5	91.6	93.3	94.7	95.3	95.4	95.7	96.2	97.3
3. Prob[Min(t)=1 Min(t-1)=1]	53.6	44.9	42.9	38.4	37.2	44.7	33.7	44.6	46.1
4. Prob[Min(t)=0 Min(t-1)=1]	46.4	55.1	57.1	61.6	62.8	55.3	56.3	55.4	53.9

Notes: Min(t) = 1 if a person is on a job paying less than the minimum wage plus \$.25 in year t, where years are indexed by their position within a person's career. Thus, Prob[Min(t)=1|Min(t-1)=0] is the probability that a person held a job paying less than the minimum plus \$.25 in year t, conditional on the fact that they held a job paying more than the minimum plus \$.25 in year t-1. An example of how to interpret the table is that the "10.5" entry under the Prob[Min(t)=1|Min(t-1)=0] row and the 1→2 column indicates that 10.5% of people with non-minimum wage jobs in the first year of their career went on to hold a minimum wage job in their next year of work.

Sources: Authors' calculations from National Longitudinal Survey of Youth.

Table 4
Proportion of Career Spent on Minimum or Near-Minimum Wage Jobs
By Years Into Career

<u>Years Into Career</u>	<u>Mean Share of Years Spent Within \$X of the Minimum Wage</u>				
	<u>X=.25</u>	<u>X=.50</u>	<u>X=1.00</u>	<u>X=1.50</u>	<u>X=2.00</u>
1	30.5	38.7	54.5	64.3	72.6
2	26.6	34.0	48.0	57.9	67.0
3	22.2	29.0	41.8	51.8	60.9
4	19.1	25.0	36.7	46.4	55.5
5	16.5	21.7	32.4	41.6	50.5
6	14.6	19.3	29.0	37.5	46.4
7	13.3	17.5	26.4	34.3	42.9
8	12.0	15.8	24.0	31.3	39.7
9	10.9	14.3	21.9	28.7	36.7
10	10.1	13.3	20.4	26.9	34.6

Source: Authors' calculations from National Longitudinal Survey of Youth.

Table 5
Proportion of Career Spent on Minimum or Near-Minimum Wage Jobs
Wage-Weighted
By Years Into Career

<u>Years Into Career</u>	<u>Mean Share of Years Spent Within \$X of the Minimum Wage</u>				
	<u>X=.25</u>	<u>X=.50</u>	<u>X=1.00</u>	<u>X=1.50</u>	<u>X=2.00</u>
1	30.5	38.7	54.5	64.3	72.6
2	24.3	31.5	45.2	55.1	64.6
3	18.7	25.0	37.3	47.3	56.6
4	15.1	20.3	31.2	40.7	49.8
5	12.4	16.8	26.4	35.1	44.0
6	10.5	14.3	22.7	30.6	39.2
7	9.1	12.5	20.0	27.0	35.2
8	7.8	10.7	17.3	23.7	31.5
9	6.7	9.2	15.2	20.9	28.0
10	6.1	8.3	13.7	18.9	25.7

Source: Authors' calculations from National Longitudinal Survey of Youth.

Table 6
Proportion of Career Spent on Minimum or Near-Minimum Wage Jobs
Real Wage-Weighted
By Years Into Career

<u>Years Into Career</u>	<u>Mean Share of Years Spent Within \$X of the Minimum Wage</u>				
	<u>X=.25</u>	<u>X=.50</u>	<u>X=1.00</u>	<u>X=1.50</u>	<u>X=2.00</u>
1	30.5	38.7	54.5	64.3	72.6
2	24.4	31.6	45.4	55.3	64.7
3	18.9	25.3	37.7	47.7	57.0
4	15.4	20.7	31.8	41.3	50.5
5	12.8	17.3	27.1	35.9	44.8
6	10.9	14.9	23.6	31.6	40.2
7	9.6	13.1	21.0	28.2	36.4
8	8.4	11.4	18.4	25.0	32.8
9	7.3	10.0	16.3	22.3	29.6
10	6.6	9.1	14.9	20.5	27.4

Source: Authors' calculations from National Longitudinal Survey of Youth.

Table 7
Fraction of Population That Has Spent At Least Z% of Their Career
Working At Jobs Within \$X of the Minimum Wage

<u>Years Into Career</u>	<u>X=.50</u>			<u>X=1.00</u>			<u>X=1.50</u>		
	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>
1	38.5	38.5	38.5	54.1	54.1	54.1	63.8	63.8	63.8
2	42.6	42.6	21.2	56.3	56.3	33.8	64.9	64.9	43.7
3	42.5	22.9	10.0	54.8	35.1	18.9	62.0	45.4	27.6
4	40.5	22.8	12.3	51.5	34.3	21.0	58.0	43.5	29.8
5	22.0	12.7	6.1	33.3	21.4	12.4	41.7	29.8	19.3
6	21.1	12.4	3.0	31.5	20.8	7.6	39.6	28.6	12.4
7	20.6	7.0	1.8	30.6	13.3	4.7	38.0	19.7	8.2
8	19.6	7.0	2.1	28.9	13.0	5.1	35.8	19.2	8.5
9	12.1	3.7	1.0	19.6	8.0	3.0	25.8	13.4	5.3
10	11.8	3.8	0.7	18.8	8.3	1.9	24.9	13.2	3.6

Source: Authors' calculations from National Longitudinal Survey of Youth.

Table 8

**Fraction of Black Population That Has Spent At Least Z% of Their Career
Working At Jobs Within \$X of the Minimum Wage**

<u>Years Into Career</u>	<u>X=.50</u>			<u>X=1.00</u>			<u>X=1.50</u>		
	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>
1	45.9	45.9	45.9	62.0	62.0	62.0	71.3	71.3	71.3
2	49.1	49.1	28.2	62.7	62.7	41.5	69.4	69.4	52.0
3	45.0	26.8	13.0	56.1	38.5	22.3	61.2	47.9	30.3
4	41.7	25.4	15.8	51.7	37.0	23.6	55.7	44.8	32.5
5	24.5	16.4	8.7	35.4	24.4	15.6	42.2	31.8	23.2
6	24.6	16.6	4.6	34.3	25.0	11.1	40.9	31.3	17.3
7	23.4	10.8	2.6	32.3	17.2	7.5	38.7	24.0	12.3
8	22.7	10.6	3.4	31.3	17.1	8.4	37.2	23.1	13.0
9	14.4	5.7	1.7	21.2	11.3	4.5	27.0	16.2	8.4
10	13.6	5.9	0.8	20.1	11.1	2.9	25.4	16.2	6.1

Source: Authors' calculations from National Longitudinal Survey of Youth.

Table 9

**Fraction of Female Population That Has Spent At Least Z% of Their Career
Working At Jobs Within \$X of the Minimum Wage**

<u>Years Into Career</u>	<u>X=.50</u>			<u>X=1.00</u>			<u>X=1.50</u>		
	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>	<u>Z=25</u>	<u>Z=50</u>	<u>Z=75</u>
1	46.5	46.5	46.5	61.9	61.9	61.9	70.6	70.6	70.6
2	50.7	50.7	28.7	63.7	63.7	42.9	71.2	71.2	52.6
3	49.2	29.7	14.7	60.5	43.1	25.6	66.2	52.3	35.5
4	46.6	28.2	16.9	56.2	40.9	27.2	61.2	48.7	36.8
5	27.0	16.6	8.5	38.7	26.8	16.0	46.1	35.4	24.3
6	24.7	15.2	4.6	35.2	24.9	10.2	42.1	32.6	15.2
7	23.9	9.1	2.9	34.1	16.1	6.7	40.1	23.6	10.6
8	22.3	8.8	3.2	31.5	15.3	7.1	37.3	22.7	10.7
9	13.9	5.3	1.5	22.4	9.9	4.2	28.3	15.6	7.1
10	13.4	5.6	1.1	21.1	10.4	2.7	26.8	15.1	4.7

Source: Authors' calculations from National Longitudinal Survey of Youth.

Table 10
Models of Minimum Wage Careers

<u>Independent Variable</u>	Dependent Variable = Fraction of First X years spent on jobs paying less than the prevailing minimum wage plus \$1.00		
	<u>X=5</u>	<u>X=8</u>	<u>X=10</u>
Intercept	1.676 (.071)	1.339 (.067)	1.150 (.056)
Age as of this year	-.037 (.004)	-.027 (.003)	-.022 (.003)
Number of children	-.028 (.013)	-.026 (.007)	-.020 (.006)
Female	.109 (.013)	.067 (.013)	.062 (.014)
Female * Number of Children	.070 (.020)	.049 (.014)	.034 (.011)
Black	.073 (.024)	.061 (.021)	.053 (.020)
Black * Female	-.035 (.037)	-.015 (.033)	-.031 (.032)
Education	-.029 (.005)	-.024 (.004)	-.017 (.004)
Urban	-.049 (.017)	-.039 (.014)	-.039 (.012)
Father's Education	-.005 (.002)	-.003 (.002)	-.002 (.002)
Mother's Education	-.002 (.003)	-.003 (.067)	-.004 (.002)
Number of Observations	2494	2132	1942
R-square	.259	.244	.211

Notes: Standard errors properly account for the complex survey design of the data.

Sources: Authors' calculations based on data from National Longitudinal Survey of Youth.

Table 11

**Model Predictions for Percentage of First Y Years on Minimum Wage Job
For Selected X's**

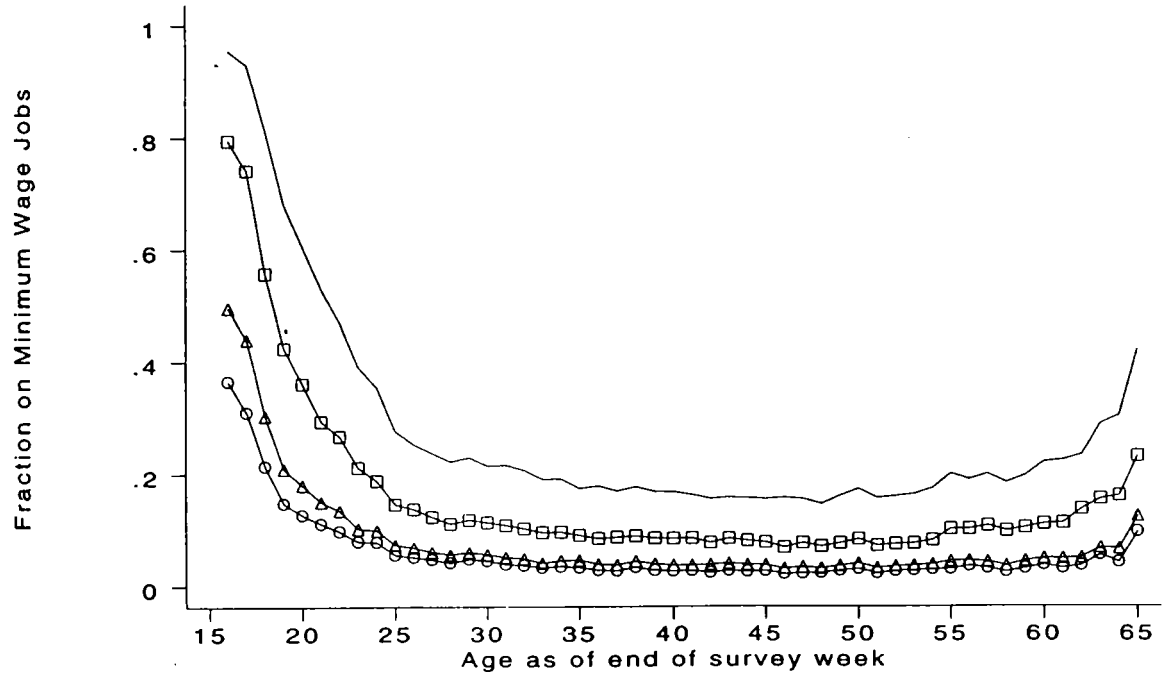
A. First 5 years	Years of Education				
	8	10	12	14	16
Characteristics					
Black – Rural – Woman	63.0	57.2	51.3	45.5	39.6
White – Rural – Woman	59.2	53.4	47.5	41.7	35.9
Black – Rural – Man	52.0	46.2	40.3	34.5	28.7
Black – Urban – Man	47.1	41.3	35.4	29.6	23.8
White – Rural – Man	44.7	38.8	33.0	27.1	21.3
White – Urban – Man	39.7	33.9	28.1	22.2	16.4

B. First 8 years	Years of Education				
	8	10	12	14	16
Characteristics					
Black – Rural – Woman	50.2	45.4	40.7	35.9	31.1
White – Rural – Woman	45.6	40.8	36.1	31.3	26.5
Black – Rural – Man	40.7	36.0	31.2	26.5	21.7
Black – Urban – Man	36.8	32.0	27.3	22.5	17.8
White – Rural – Man	34.7	29.9	25.1	20.4	15.6
White – Urban – Man	30.7	25.9	21.2	16.4	11.7

C. First 10 years	Years of Education				
	8	10	12	14	16
Characteristics					
Black – Rural – Woman	40.4	36.9	33.5	30.0	26.6
White – Rural – Woman	38.2	34.7	31.2	27.8	24.3
Black – Rural – Man	33.8	30.4	26.9	23.5	20.0
Black – Urban – Man	30.0	26.5	23.1	19.6	16.2
White – Rural – Man	28.5	25.1	21.6	18.1	14.7
White – Urban – Man	24.7	21.2	17.7	14.3	10.8

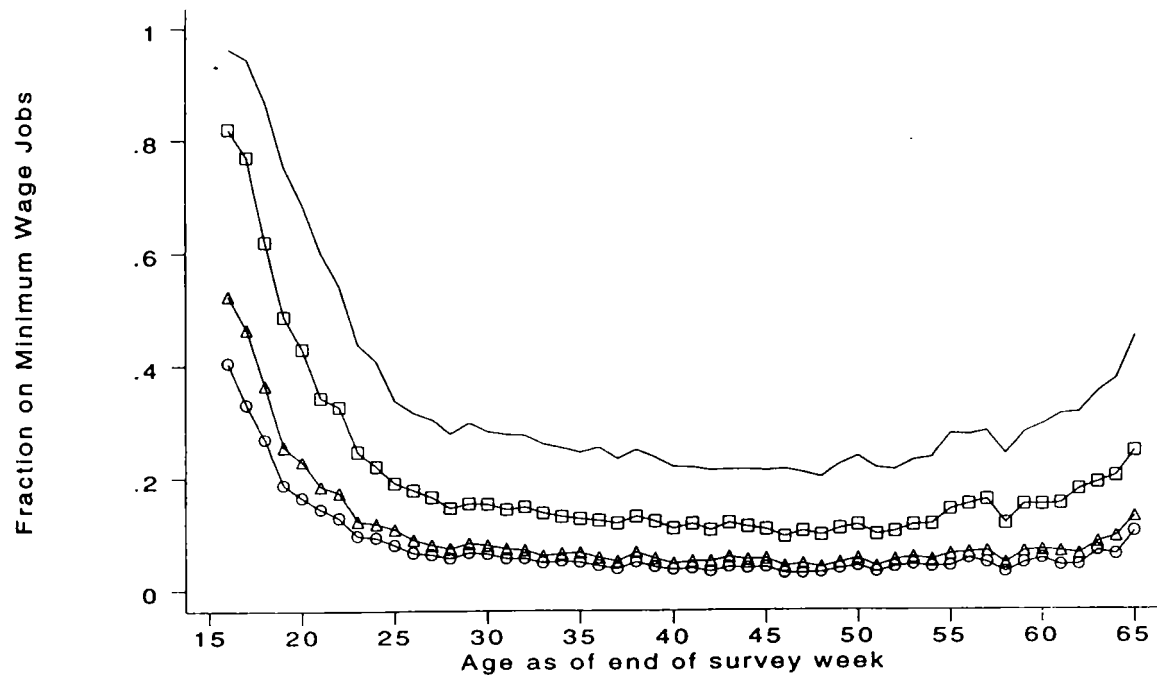
Notes: All predictions based on linear regressions reported in Table 10
 Authors' calculations based on data from the National Longitudinal Survey of Youth.

Figure 1
All Workers



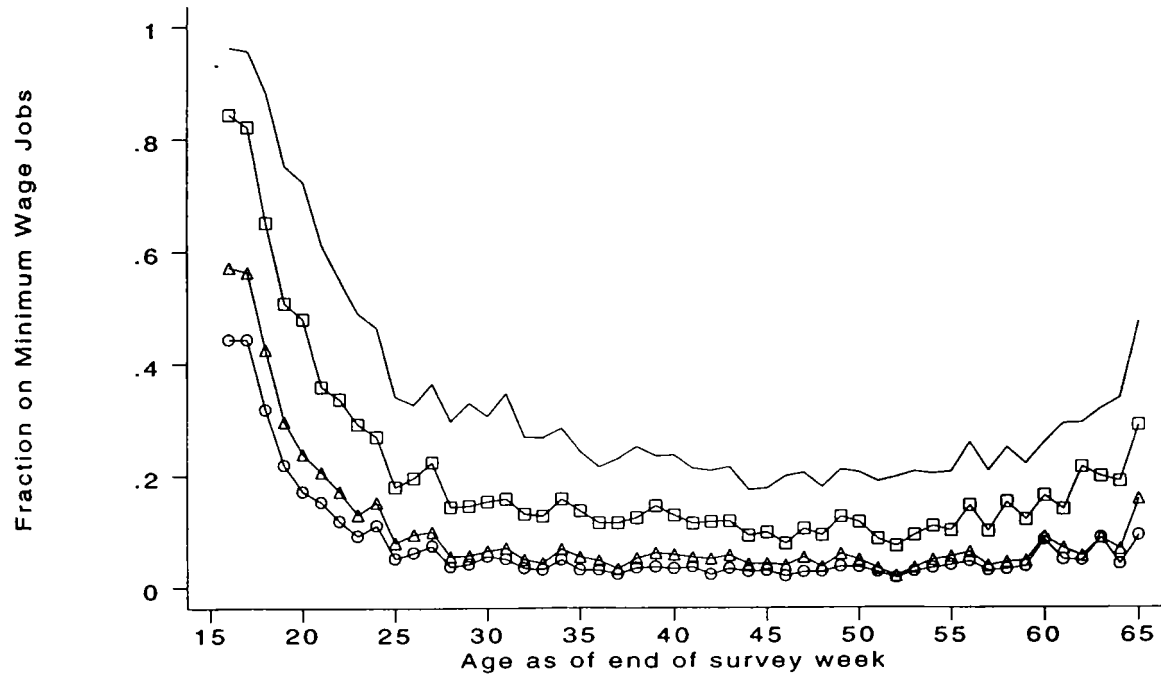
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Figure 2
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Figure 3
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A Cross-National Analysis of the Effects of

Minimum Wages on Youth Employment

David Neumark and William Wascher

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ABSTRACT

We estimate the employment effects of changes in national minimum wages using a pooled cross-section time-series data set comprising sixteen OECD countries for the period 1975-1997. We pay particular attention to the impact of cross-country differences in minimum wage systems and in other labor market institutions and policies that may either reduce or amplify the effects of minimum wages. Overall, our results generally are consistent with the view that minimum wages cause employment losses among youth. However, the evidence also suggests that the employment effects of minimum wages vary considerably across countries. Disemployment effects of minimum wages appear to be smaller when there are subminimum wages for youths, while, in the longer run at least, minimum wages set by collective bargaining may entail more deleterious employment effects. We also find that government policies restricting employers' ability to adjust nonpecuniary characteristics of jobs (such as hours restrictions or work rules) tend to exacerbate the negative effects of minimum wages on youth employment, while countries with active labor market policies designed to bring non-employed individuals into the work force tend to exhibit smaller disemployment effects from minimum wages.

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Using the EITC to Help Poor Families: New Evidence and a
Comparison with the Minimum Wage

David Neumark and William Wascher

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ABSTRACT

This paper evaluates the effects of the earned income tax credit (EITC) on poor families. Exploiting state-level variation in EITCs, we find that the EITC helps families rise above poverty-level earnings. This occurs by inducing labor market entry in families that initially do not have an adult in the workforce. Evidence based on the federal EITC is less supportive of a positive impact of the EITC on poor families. Finally, our results suggest that for the range of policy changes typical of recent history in the U.S., the EITC is more beneficial for poor families than is the minimum wage.

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EMPLOYERS HAVE FLEXIBILITY TO CHOOSE HOW TO COMPENSATE AND PROVIDE INCENTIVES TO WORKERS

Employers can give any worker a bonus for any reason.

Proponents of the Majority's proposal to reduce overtime pay by excluding bonuses from overtime calculations claim the Fair Labor Standards Act is an obstacle for employers who want to reward good workers.

But they're wrong. The law already provides employers with the flexibility to let employees reap the benefits of a successful company, and at the same time protects workers' right to overtime pay.

First, under current law employers are not required to pay an overtime premium to most salaried workers. Hence bonuses to these workers do not have to go into overtime pay, and the Majority bonus proposal won't affect them at all.

Second, there are many ways employers can reward the up to 74 million employees who are entitled to overtime, without affecting their overtime pay. An employer can:

- Offer employees a stock option plan.
- Announce a policy allowing employees to share in the company's profits through a profit sharing plan that ties the amount each worker receives to length of service or base pay (so long as the individual worker's share is not based on attendance, amount of work, production rate, or efficiency).
- Give workers a surprise cash bonus at the end of an especially profitable quarter or year.
- Make a gift to its workers' of the company's product: a company that develops computer software can decide to give some or all of its workers a free copy of their latest product.
- Give workers savings bonds as a holiday gift.
- Mark the ten-year anniversary of a company's founding by giving each employee a check equal to 2% of his or her annual pay.

Of course, employers can also reward employees by providing them with generous benefits packages – health insurance, pension, life insurance and thrift or savings plans – that won't impact overtime pay.

Third, since 1949, employers have been free to reward workers in many other ways too, so long as they include them in the base for overtime pay of any worker who actually puts in overtime hours:

While the current system of tax incentives and direct provision programs assists millions of Americans in obtaining health insurance, there are many who remain uninsured either because they do not take advantage of or are ineligible for the current programs. A number of proposals have been considered to address this important issue. Prior to discussing individual proposals it is useful to lay out the basic economic issues that are important in assessing the various proposals.

A. Distributional Effects

The type of subsidy will have different distributional effects. As described in the previous section, expanding tax deductibility for health insurance premiums will provide more benefit to higher income people. In contrast, a tax credit directly reduces tax payments by the amount of the credit, and is therefore worth *the same to all taxpayers able to take advantage of it*. To take full advantage of a non-refundable tax credit, however, an individual must pay at least as much in taxes as the amount of the credit. Since almost half of the uninsured do not pay any taxes against which either a deduction or credit can be applied, neither tax deductions nor tax credits reduce the cost of health insurance for this group.²⁶ If a tax credit is made *refundable*, however, it will reduce the cost of health insurance to all lower-income individuals because a refundable credit is payable even to those individuals who do not owe any taxes at all. By limiting eligibility for tax credits, the benefits can be targeted to specific income groups. Direct provision of health insurance can also be targeted to specific income levels by eligibility criteria. While Medicare eligibility is not income related, Medicaid and SCHIP eligibility are.

B. Crowding Out and the “Cost per Newly Insured.”

Policies that are designed to extend coverage to those currently uninsured can cause some people who currently have insurance to drop it in favor of government-provided insurance or individually purchased insurance motivated by a tax subsidy. Equivalently, some employers may stop offering coverage and tell their employees to take advantage of the new government insurance or tax subsidy. This is known as “crowding out” of existing insurance—when new government subsidized insurance crowds out employer-provided insurance. It means that government dollars do not just go to newly insured; some fraction of the money goes to those who had employer-provided coverage and are now switching to a new government subsidized plan. If crowding out is severe, this can push up substantially the cost to the government of each net newly insured person. Moreover, if firms drop coverage, some employees may choose not to purchase individual insurance, leading to a smaller net increase in coverage, or possibly even a net decrease. Studies of the Medicaid child eligibility expansions of the late 1980s and first half of the 1990s found that about 10 to 20 percent of the increase in Medicaid coverage was due to a reduction in private insurance. Most of these studies examined Medicaid expansions that did not contain anti-crowd-out provisions. To prevent crowding-out, some proposals have excluded eligibility of people who had private insurance. However, this penalizes people who had already had health insurance in the private market and are not eligible for the new subsidies.

²⁶ Jonathan Gruber, *Tax Subsidies for Health Insurance: Evaluating the Costs and Benefits*, Working Paper 7553 (Boston: National Bureau of Economic Research, 2000).

- Pay workers a commission in addition to base pay for every sale she makes or customer she brings in.
- Set up a profit-sharing plan that is tied to workers' production, efficiency, or hours worked.
- Establish a gainsharing bonus program.
- Announce that workers who improve production quality by 10% will get 10% of pay as a bonus.
- Have a policy that gives stepped up bonuses based on how much a worker exceeds her production quota.

Employers have been making these kinds of awards **and** paying proper overtime for decades.

Finally, if an employer chooses to reward workers using a method that affects overtime, all it means is those workers who work longer hours will get a little higher bonus – and wasn't rewarding hard workers the point? Making such calculations is easier today than ever before, especially with today's computerized payroll systems. And employers already have on hand the information they need: how many hours an employee worked, including overtime hours, during the time covered by the bonus, and how much the employee had already been paid before the bonus.

It's clear: employers have – and have always had – a lot of flexibility to reward workers. There's nothing new about paying bonuses and commissions to workers who earn overtime; what's new about the Majority proposal is changing the rules to avoid paying workers the overtime they deserve.

The Majority proposal is not about “flexibility in the new economy” – it's about cutting overtime pay for America's working families.

C. Encouraging Participation

Many families do not take advantage of insurance programs that are available to them. For individuals at low-income levels, even modest payments (such as nominal premiums or co-payments) may dramatically decrease enrollment and utilization. This may especially affect families without health insurance problems, who may risk remaining uninsured to pay for more pressing problems. In addition, a complex application process designed to determine eligibility may have the unintended side effect of dramatically reducing coverage for otherwise qualified individuals. A subsidy that is received only after expenses have been paid may also deter individuals who do not have the funds to pay the insurance premiums up front. A refundable credit available only for tax filers may have low participation by those who would not otherwise have to file income tax.

D. Issues with Different Types of Insurance

The type of health insurance that the government subsidizes is important. Traditional employer-based insurance is often called “group” coverage because a firm’s employees form a risk pool of individuals who are all charged the same rate regardless of their individual health status. In contrast, individuals seeking health insurance on their own must purchase insurance in the “non-group” market, where fewer regulatory protections apply. A third option is a public insurance product; either by public provision of insurance, or by a “buy-in” provision. The following are some of the major issues associated with these different types of policies. .

Accessibility of insurance

In the non-group market, individuals can face difficulties with access to insurance. Insurers can often vary the benefits package to limit coverage, or exclude individuals with pre-existing conditions from coverage. In many states, insurers can charge different premiums based on the perceived risk of coverage, making health insurance unaffordable for some people. State insurance regulations can address these problems—for example, fifteen states limit rating in the individual market, restricting how much insurers can base premiums on a person’s health²⁷—but such a solution can lead to adverse selection problems. Accessibility is less of an issue for employer-provided group and publicly provided insurance, except for the explicit requirement of belonging to an eligible group: either being an employee of a firm offering health insurance or meeting the criteria established by the government, but among those eligible allows guaranteed issue.

Adverse selection

Health insurance is based on the premise that, by offering a single rate to a group of individuals, those people who do not have health expenses in a particular year help pay the costs of those people who do experience health-related expenses—people pool their risks. Adverse selection occurs when low-risk individuals do not believe they benefit from the risk pooling. As

²⁷ Deborah Chollet, “Consumers, Insurers, and Market Behavior,” *Journal of Health Politics, Policy, and Law*, 25.1 (2000).

DRAFT

March xx, 2000

Dear xx,

I am writing this letter to encourage you to pass a straightforward minimum wage bill that raises the minimum wage by \$1 over two years. If Congress puts politics over work and family and sends me a bill that delays minimum wage increase by spreading it out over 3 years and attaches it to costly and regressive tax cuts that threaten our fiscal discipline, I will veto it.

In 1996, the Congress and I worked together to raise the minimum wage by 90 cents over 2 years. Since then, the American economy has created more than 10 million new jobs – with more than 1 million of them in the retail sector where many minimum-wage workers are employed. The unemployment rate has fallen from the already low rate of 5.2 percent to 4.1 percent – around the lowest in 30 years. We have enjoyed larger real wage increases for more consecutive years than at any time in more than two decades, while underlying inflation is the lowest it has been in more than three decades. The minimum wage increase has contributed to the 44 percent decline in the welfare caseload since the last minimum wage increase – bringing the welfare rolls down to their lowest level in three decades. And the minimum wage increase has been a crucial factor in reversing the wage stagnation and declines of the previous decade, contributing to rising wages for even the lowest income groups. Our recent experience clearly demonstrates that what is good for America's working families is good for America's economy.

We must do more to ensure that all Americans continue to benefit from the longest economic expansion in our Nation's history. In 1992, a full-time working parent with two children that earned the minimum wage was well below the poverty line. Today, as a result of the expansion of the Earned Income Tax Credit in 1993 and the increase in the minimum wage, no full-time working parent with two children has to raise his or her family in poverty. To further reward work and family, I have proposed to raise the minimum wage by \$1 an hour over the next two years – from \$5.15 to \$6.15. This modest increase would simply restore the real value of the minimum wage to what it was in 1982. For a full-time worker at the minimum wage, this would provide a \$2,000 raise – enough for a typical family of four to buy groceries for 7 months or pay rent for 5 months. More than 11 million workers would benefit under this proposal, the majority of them women.

Unfortunately, some in Congress have proposed a more gradual increase in the minimum wage that would cost a full-time, year-round worker roughly [\$900] over [two] years compared with my proposal. They have added provisions that would repeal important overtime protections for American workers. I will veto any bill that forces hard-working American families to wait three years for their full pay raise.

At the same time, some in Congress have been playing politics with the minimum wage bill, using it as a vehicle for costly, regressive and unnecessary tax cuts that would threaten our fiscal discipline. Our key priorities should be to meet our long-term fiscal challenges: eliminating the debt, strengthening Medicare, and strengthening Social Security. My budget

addresses these priorities. If you pass a tax cut that threatens Social Security, Medicare, and debt reduction, I will veto it.

million school-age children are in either married-couple families where both parents are employed or single-parent families where the single parent works outside the home. An added 10 million children left in the care of grandfamilies from working families employed. This has led to a strong demand for quality programs to ensure that children are safe and learning in the hours in which they are not supervised by a parent. In fact, experts estimate that every day for the same this year, Congress should do the same this year. Large Congress to pass a minimum wage bill that increases the minimum wage by \$1 over two years and does not at the same time add poison pills that bypass the priorities of working families by increasing its investment in after-school programs from \$40 million

in 1998 to \$453 million in the 2000 fiscal year, providing support for up to 675,000 students -- 375,000 more than last year. And the President's fiscal year 2001 budget...[update]

Sincerely,

WJC

CONCLUSION

The American family in the 21st century faces a different world and a new set of challenges from its counterpart of a hundred years ago. It would be a mistake, however, to conclude that the general problems of too little time and too few resources are new. Thanks in part to greater paid employment, families today enjoy a much higher standard of living than families did a hundred years ago. But expectations appear to be different today. Great changes in the economy have opened up great opportunities, and people aspire to take advantage of those opportunities; well-designed Federal policies can help.