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Minimum Wage

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FAX TRANSMITTAL SHEET

DEPARTMENT OF LABOR · UNITED STATES OF AMERICA ·

6958

RECEIVER TELECOPIER NUMBER: 395-~~8042~~

TO: Laura Tyson

FROM: Alan Krueger

DATE: Feb 3, 95 **TIME:** 1:10

PAGE NUMBER ONE OF 3 **PAGES**

TRANSMITTER TELECOPIER: (202) 219-4902

ADDITIONAL COMMENTS:

IF YOU HAVE QUESTIONS REGARDING THIS FAX CALL 202-219-5108.

Why a minimum wage hike might not cause job loss - "Search Theory"

Many low-wage employers operate with vacancies and high turnover. Managers in these establishments continually spend time recruiting workers. In many cases the managers of these firms would like to pay a higher wage to attract more workers, but they resist paying more to recruit these desired workers because a pay hike would require them to pay more to the workers they already employ. Instead of increasing pay, the firms pay recruitment bonuses or try other schemes to attract more workers. A moderate rise in the minimum wage wage enables the firm to recruit additional workers to fill its vacancies -- many of these workers come from the ranks of the unemployed because work now pays more. A minimum wage hike also helps to lower a firm's turnover, because workers want to stay in jobs that pay more. And with lower turnover, the firm gets a higher payoff from providing training.

Other employers offer higher pay, which leads to lower turnover and helps the firm to fill vacancies. People...

Why a Moderate Minimum Wage Increase Might Not Affect Employment

The minimum wage is currently 27 percent lower than it was in 1979, adjusting for inflation. Many employers have some market power, and can afford to pay minimum-wage workers a higher wage. Furthermore, the fact that paying a higher wage tends to make employees more loyal, reduce turnover, help recruitment, and enhance productivity helps to offset the higher costs of a minimum wage to employers.

As the President said in the State of the Union, raising the minimum wage would give many people a stronger incentive to join the workforce. Moreover, in this recovery -- in spite of nearly 6 million jobs being created in two years -- employers still demand additional workers. For example, the Conference Board announced on February 2nd that its Help Wanted Index reached its highest level since April 1990.

OFFICE OF CABINET AFFAIRS

THE WHITE HOUSE

WASHINGTON

FAX

TO: Chiefs of Staff

DATE: 2/3/95

PHONE:

NO. OF PAGES 5
(Including cover)

FAX:

PRIORITY: Y N

FROM: Cabinet Affairs

PHONE: (202) 456-2572

FAX: (202) 456-6704

MESSAGE:

PRESIDENT CLINTON ANNOUNCES INCREASE IN MINIMUM WAGE

Friday, February 3, 1995

To reward work in an economy that in 1994 saw the best job growth in a decade, President Clinton will today announce his proposal to raise the minimum wage to $5.15 an hour over two years -- through two 45 cent increases.

This news comes in the midst of more good news today for the economy under the Clinton administration. This morning, the Department of Labor reported that more than 6 million jobs have been created since President Clinton took office. In addition, the unemployment rate has dropped 20 percent to date under President Clinton.

A fact sheet and charts on the President's minimum wage proposal are attached.

House Minority Leader Richard Gephardt (D-MO) will open the announcement in the Rose Garden today, followed by Senate Minority Leader Tom Daschle (D-SD). The Vice President will then speak and introduce the President for his remarks.

-30-30-30-

REWARDING WORK: THE CASE FOR INCREASING THE MINIMUM WAGE

The President's proposal would increase the minimum wage from $4.25 to $5.15 over two years, through two 45 cent increases. The last increase, passed by an overwhelming, bipartisan vote in 1989, and implemented in 1990 and 1991, was also a 90 cent increase in two 45 cent stages. For a full-time, year-round worker at the minimum wage, a 90 cent increase would raise yearly income by $1,800 -- as much as the average family spends on groceries in over 7 months.

MAINTAINING THE HISTORIC VALUE OF WORK: If the minimum wage were to stay at its current level ($4.25), it would fall to its lowest real level in forty years. Indeed, the value of the minimum wage is now 27% lower than it was in 1979, and has fallen 45 cents in real value since its last increase in April of 1991. The first half of the President's 90 cent proposal simply restores the minimum wage to its value from the last increase.

RAISING THE MINIMUM WAGE PRIMARILY HELPS ADULT WORKERS — MOST OF WHOM RELY ON THEIR MINIMUM WAGE JOBS TO SUPPORT THEIR HOUSEHOLDS: Nearly two-thirds of minimum wage workers are adults (63%); over one third of all minimum wage workers (36%) are the sole breadwinners in their families; the average minimum wage worker brought home over half of his or her family's earnings. Thus, a rise in the minimum wage is a significant boost to the standard of living to millions of households.

REWARDS WORK OVER WELFARE: The minimum wage increase provides another crucial measure to reward work and ensure that there is a strong incentive to choose work over welfare.

BETWEEN 11 MILLION AND 14 MILLION WORKERS WOULD BENEFIT FROM THE PRESIDENT'S PROPOSAL TO INCREASE THE MINIMUM WAGE: An estimated 11 million workers, paid by the hour, earn between $4.25 and $5.14. Research indicates that an increase in the minimum wage to $5.15 could have a "ripple" effect on another 3.5 million workers who earn within 50 cents of the new minimum wage.

EMPIRICAL EVIDENCE SHOWS THE PRESIDENT'S PROPOSAL CAN INCREASE WAGES WITHOUT COSTING JOBS: Over a dozen empirical studies have found that moderate increases in the minimum wage do not have a significant impact on employment. These studies include state-specific research that shows that higher state increases in the minimum wage did not result in significant job impacts. As Nobel Laureate Robert Solow stated: "[T]he evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

A 90 CENT INCREASE IN THE MINIMUM WAGE WILL LIFT A FAMILY OF FOUR OUT OF POVERTY: The dramatic extension of the Earned Income Tax Credit helped lift hundreds of thousands of working families out of poverty. Yet, by 1996, even the EITC is not enough to lift above the poverty line a family of four making the minimum wage. With the 90 cent minimum wage increase, food stamps, and the EITC, a family of four with a year-round minimum wage worker would be lifted above the poverty line.

THE LAST MINIMUM WAGE -- ALSO 90 CENTS -- GARNERED STRONG BIPARTISAN SUPPORT. In 1989, the minimum wage was passed by votes of 382 to 37 (135 Republicans) in the House, and 89 to 8 in the Senate (36 Republicans) and was supported by Senator Dole and Rep. Gingrich.

Appendix Table. Value of the Minimum Wage, 1955-1995

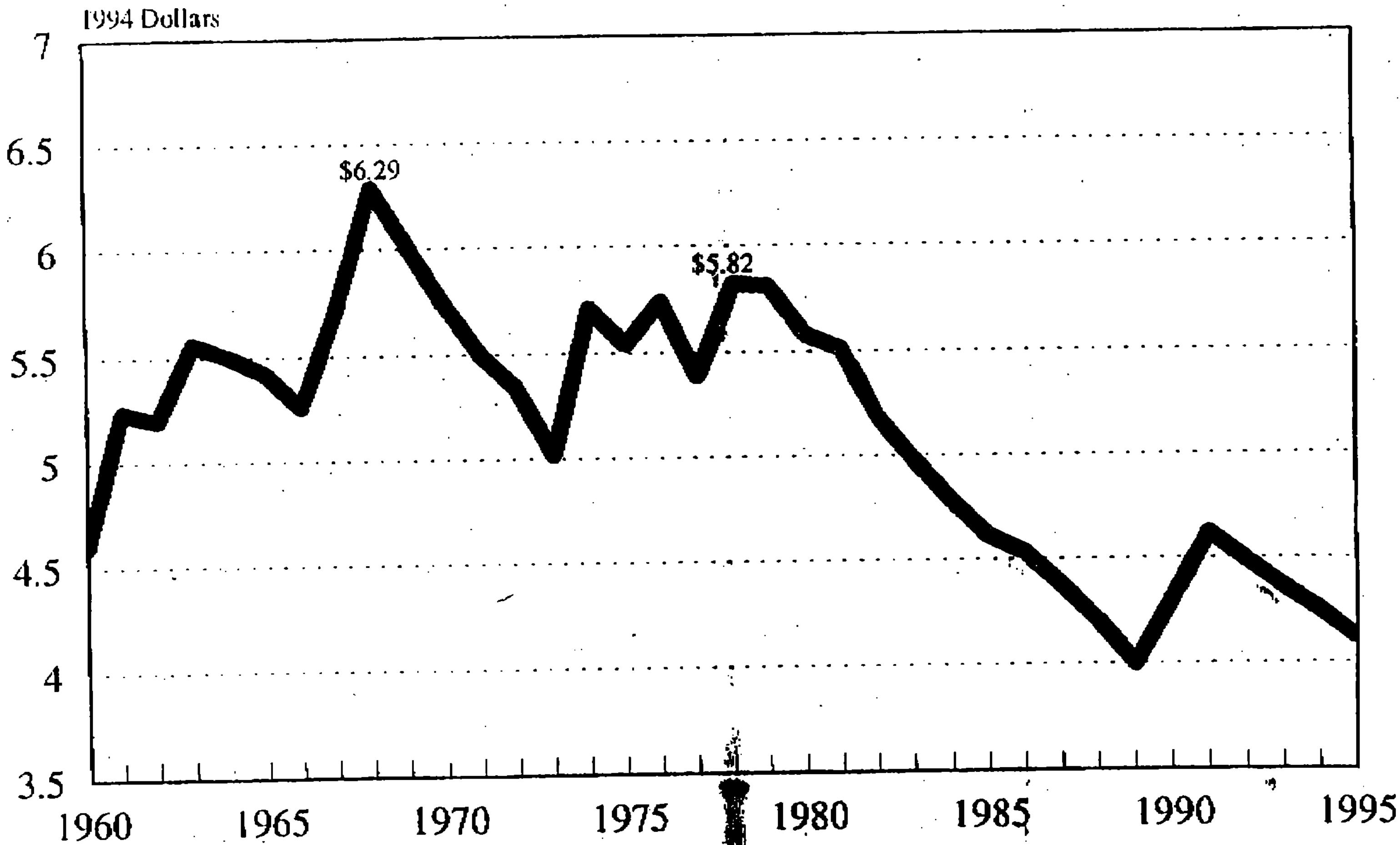
Year	Value of the Minimum Wage, Nominal Dollars	Value of the Minimum Wage, 1995 Dollars*	Minimum Wage as a Percent of the Average Private Nonsupervisory Wage
1955	$0.75	$3.94	43.9%
1956	1.00	5.16	55.6
1957	1.00	5.01	52.9
1958	1.00	4.87	51.3
1959	1.00	4.84	49.5
1960	1.00	4.75	47.8
1961	1.15	5.41	53.7
1962	1.15	5.36	51.8
1963	1.25	5.74	54.8
1964	1.25	5.67	53.0
1965	1.25	5.59	50.8
1966	1.25	5.43	48.8
1967	1.40	5.90	52.2
1968	1.60	6.49	56.1
1969	1.60	6.21	52.6
1970	1.60	5.92	49.5
1971	1.60	5.67	46.4
1972	1.60	5.51	43.2
1973	1.60	5.18	40.6
1974	2.00	5.89	47.2
1975	2.10	5.71	46.4
1976	2.30	5.92	47.3
1977	2.30	5.56	43.8
1978	2.65	6.00	46.6
1979	2.90	5.99	47.1
1980	3.10	5.76	46.5
1981	3.35	5.68	46.2
1982	3.35	5.36	43.6
1983	3.35	5.14	41.8
1984	3.35	4.93	40.3
1985	3.35	4.76	39.1
1986	3.35	4.67	38.2
1987	3.35	4.51	37.3
1988	3.35	4.33	36.1
1989	3.35	4.13	34.7
1990	3.80	4.44	37.9
1991	4.25	4.77	41.1
1992	4.25	4.63	40.2
1993	4.25	4.50	39.2
1994	4.25	4.38	n/a
1995	4.25	4.25	n/a

*Adjusted for inflation using the CPI-U-X1.

Source: Center on Budget and Policy Priorities

The Real Minimum Wage

1960-1995



NOTE: Minimum wage is in 1994 CPI-U-X1 Dollars. The inflation rate for 1995 is assumed to be 3.2 percent.

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

January 25, 1995

TO: LAURA TYSON
MARTIN BAILY
JOSEPH STIGLITZ

FROM: MICHAEL DONIHUE MD
DAVID LEVINE

SUBJECT: Impact of a Minimum Wage Increase on Prices

According to Alan Krueger's office, a $0.75 increase in the minimum wage raises the wage bill by at most $6 billion, assuming no labor demand effect and that only covered workers' wages increase. Total compensation of employees in 1994:III was about $4000 billion, which would lead to 0.2 percent increase in total pay. A 0.2 percentage point increase in compensation per hour would translate into a similar increase in measured inflation in the year of the increase.

An alternative, longer-run estimate would be to compute the impact on Final Sales to Domestic Purchasers (which was $6800 billion in 1994:III). Using this calculation, a $6 billion increase in the wage bill translates into a 0.1 percentage point increase in inflation.

The evidence from dynamic simulations of 3 macro models is mixed, presumably because of assumptions about spillover effects to higher-wage workers and dynamic interactions reflected in the price-markup assumptions of the models. In the absence of a monetary response or labor demand effect, L. Meyer & Associates estimate the impact of a $0.75 increase in the minimum wage to 0.6 percentage point increase in compensation per hour in the year the increase takes effect, and about an equivalent increase in consumer price inflation.

Joan Crary, from RSQE at the University of Michigan, found that an increase of $0.75 in the minimum wage increased compensation per hour by about 0.5 percentage point using their model. This translated into a roughly 0.3 percentage point increase in consumer price inflation.

The WEFA model finds almost no impact on prices from an increase in the minimum wage. In that model, a $0.75 increase in the minimum wage raises compensation per hour by 0.1 percentage point, with an even smaller pass-through to consumer price inflation of only about 0.05 percentage point.

One version of our Phillips Curve work had a variable which allowed for increases in the minimum wage, in excess of compensation per hour, to affect measured CPI inflation. Recall that dynamic simulations of this equation for 1994 did quite well, on average, in predicting inflation. If we assume that the proposed minimum wage hike had been implemented at the beginning of 1994, predicted inflation for the year would have been about 0.1 percentage point higher according to this equation.

cc: EMauskopf,DW,CF,HR,TOD

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

July 20, 1993

MEMORANDUM TO THE PRESIDENT

VIA: Robert Rubin

FROM: Robert B. Reich RBR

SUBJECT: Reconciliation, the EITC, and the Minimum Wage: How much progress towards the make work pay goal?

cc: Lloyd Bentsen, Leon Panetta, Donna Shalala, Laura Tyson, Carol Rasco

An assessment of the EITC proposals in the reconciliation bills and the objective of "making work pay" leads to two recommendations. First, we should work to ensure that the House EITC reforms -- which reflect the Administration's proposal -- are retained. The Administration/House reforms make it easier to achieve the goal of lifting families with full-time workers out of poverty and provide overdue tax relief to poor childless workers.

Second, such an assessment underscores how the minimum wage and the EITC are complementary policies, and that it is time to begin to investigate what minimum wage reforms may be appropriate. To achieve the goal of making work pay, the minimum wage should be raised and then indexed. Even the substantial Administration/House EITC expansion cannot achieve the goal alone. And just as certain features of the EITC make up for shortcomings with the minimum wage, certain features of the minimum wage address shortcomings with the EITC. For example, in contrast to the EITC which is nearly always received through one lump sum payment at tax time, the effects of a change in the minimum wage are felt with every paycheck.

This assessment has led me to step up Labor Department efforts to review the minimum wage. I will report back to you in 90 days with my initial recommendations, via the NEC and/or the Domestic Policy Council.

House vs. Senate EITC

In designing the parameters of your EITC expansion, the combined value of full-time minimum wage earnings, plus EITC benefits, plus food stamps, and minus payroll taxes, was compared to the poverty line. The proposed EITC increase for families with two or more children was set at a level that would lift a family of four with a full-time minimum wage worker out of poverty.

The Administration's EITC proposal, incorporated in the House bill, would attain this objective virtually precisely. But two of the assumptions made in the calculation should be highlighted. First, to reach the objective, the calculation assumed that the value of the minimum wage would equal $4.50 an hour in 1994 dollars.[1] Second, the assumption of the receipt of food stamps -- valued at more than $3,000 for a family of four with minimum wage earnings -- is often unwarranted. Substantially less than half of working poor families receive food stamps.

All this suggests there is virtually no room to maneuver in terms of cutting back our proposed expansions in the EITC. Nevertheless, the Senate reduced the proposed increases in a variety of ways. For example, the Senate provisions make it somewhat less likely that families with full-time workers will be lifted out of poverty. A family of four with two children would receive a maximum EITC benefit that would be $56 lower than under the House bill. Such a family with a full-time minimum wage worker would therefore fall $56 further below the poverty line.

The Senate's elimination of the new, small EITC for childless workers also is very troubling. Poor childless workers would no longer receive an offset for the new energy taxes they may have to pay. In addition, more than any other group of taxpayers, poor childless workers have been hit hardest by tax increases since 1980. Several of these increases contained regressive tax provisions that included an EITC offset for working poor families with children, but did <u>not</u> include an offset for poor workers without children. As a result, <u>the overall federal tax burden of the poorest fifth of households without children has risen a dramatic 38 percent since 1980.</u> Single workers also are the one group that still pays federal income taxes even when they are in poverty. The new EITC for childless workers would help address these problems.

The Role of the Minimum Wage

<u>The minimum wage and the goal.</u> Even if the Administration/House EITC reforms are fully adopted, indexing the minimum wage at $4.50 an hour is a <u>minimum</u> prerequisite to reaching the goal of lifting families of four with full-time

[1] A minimum wage level of $4.50 an hour in 1994 is consistent with indexing the wage floor at its 1992 level of $4.25 an hour.

workers out of poverty. If the minimum wage is not indexed, or if it is indexed at a lower level, the goal will not be achieved.

- If the minimum wage remains unchanged at a given, nominal level year after year, it will take a continuously expanding EITC just to maintain minimum wage families at the same real income level. Otherwise, the fall in the purchasing power of the minimum wage will drop families further into poverty.

- A small difference in hourly wage levels can have substantial effects on total income. If the minimum wage is indexed at $4.25 an hour instead of at $4.50, the effect on the annual earnings of a full-time worker (employed 2,080 hours a year) would be a reduction of $520.[2] For a minimum-wage worker employed half-time, the reduction would be $260.

- Since the large majority of the working poor are employed for part of the year or for less than 40 hours a week, since most of the working poor do not receive food stamps, and since many of the working poor live in families of five or more, most of the working poor will remain in poverty even under the Administration/House EITC expansion and a $4.50-an-hour minimum wage. A larger minimum wage increase could narrow the poverty gap for these working poor households.

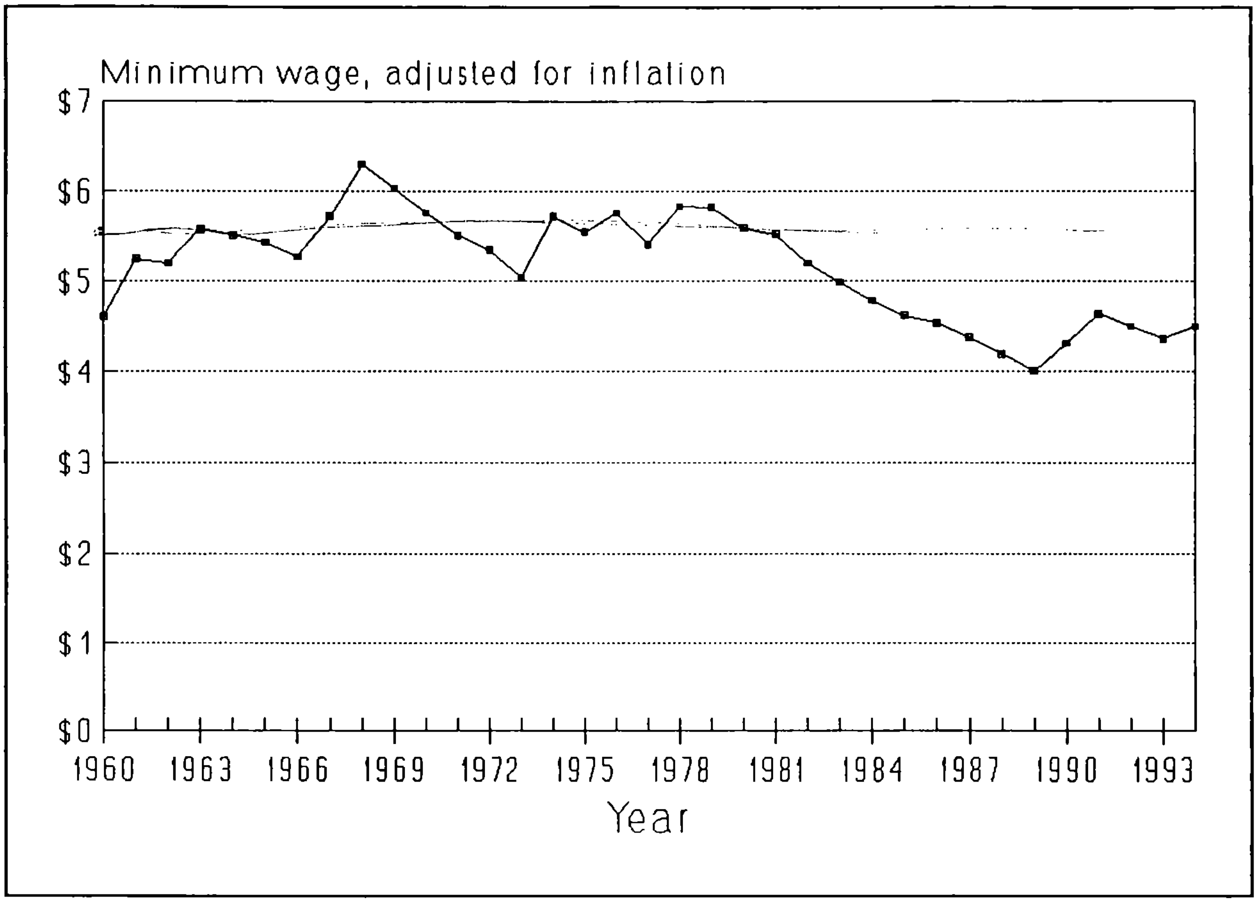
Historic Comparisons. From 1981 to 1990, the minimum wage remained at $3.35 an hour, despite the jump in the cost of living. President Bush agreed to raise the wage floor to $4.25 an hour, after vetoing a bill mandating a higher level. But this increase made up less than half of the ground that had been lost to inflation.

Consequently, increasing the minimum wage by just 25 cents to $4.50 an hour, and then indexing it, would yield a minimum wage well below its traditional value.

- A minimum wage of $4.50 an hour in 1994 would be more than $1 -- or about 19 percent -- below its average value in the 1970s, after adjusting for inflation. (See Figure 1.)

[2]The net effect on income would be less because the family would owe less in payroll taxes. If the family receives food stamp benefits, which are higher for families with lower incomes, the net effect would also be diminished somewhat.

Figure 1. Historic value of the minimum wage, assuming a minimum wage of $4.50 an hour in 1994. (Values in 1994 dollars.)



- In fact, setting the minimum wage at $4.50 an hour in 1994 would establish a lower real level than what was agreed to by President Bush. He supported a level of $4.25 an hour as of April 1, 1991; in 1994 dollars, that would equal an estimated $4.67 an hour.

For full-time minimum wage earners living in families with two or more children, the <u>net income</u> of a full-time worker receiving $4.50 an hour and the Administration/House EITC would be significantly higher than the net income of a full-time minimum wage worker during the Bush years. The larger EITC would more than offset the somewhat lower value of the minimum wage.

Taking a longer view, under the Administration/House EITC and a $4.50 an hour minimum wage, the combined value of minimum wage earnings and the EITC, minus payroll taxes, would be about the same for families with two children as the average combined value in the 1970s.[3] In other words, for these families, the establishment and expansion of the EITC over time will have essentially offset the fall in the value of the minimum wage over time.

Since, however, workers with less than two children qualify for a smaller EITC than workers with two or more children, minimum wage earners with less than two children would have less net income than in the 1970s. The increase in their EITC will not have offset the fall in the minimum wage.

Delivery issues. On the one hand, it can be argued that the substitution of a higher minimum wage with a higher EITC would be a positive accomplishment. To be sure, the EITC poses no threat to employment opportunities and can be better targeted to families in need.

On the other hand, there are several reasons why the minimum wage and the EITC are best viewed as policies that complement -- rather than substitute for -- each other. One is the timing of payments:

- More than 99 percent of EITC recipients receive their benefits in one lump sum payment when they file their taxes. A partial redress to this delivery problem may be included in the reconciliation bill, and stronger remedies are being examined in the context of welfare reform, but it is likely to prove very difficult to change this proportion substantially.

- By contrast, the minimum wage is delivered in a more timely manner for struggling families; the effects of the minimum wage are felt with each paycheck.

A second factor to consider is public perception. Your pledge to make work pay has been well-received, but despite the EITC's many merits, I believe a larger lump sum payment delivered through the tax code will not demonstrate our commitment to supporting those who play by the rules as much as a minimum wage increase would.

Finally, there is the issue of striking the right balance between a private and public sector approach. The costs of making work pay are too large to be borne entirely by either the public or private sectors. Relying on both a stronger EITC and a stronger minimum wage involves the appropriate sharing of the

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[3]Because changes in the value of food stamps are difficult to compare over time, these calculations did not consider food stamp benefits.

burden between the two sectors.

Next Steps

The complementary effects of the EITC and the minimum wage on the working poor are important. For this reason, it is important to consider the value of the minimum wage in the context of developing our welfare reform proposal.

At the same time, however, a full assessment of where to set the minimum wage should consider a wide range of factors beyond its income effects on the working poor. After all, most minimum wage workers are not poor. And the potential effects of a minimum wage increase on employment should of course be weighed, particularly in combination with the effects of the health reform proposal.

Unless you prefer a different schedule or approach, the Labor Department intends to fully assess all these factors over the next 90 days. I will then forward my initial recommendations to you, via Carol Rasco and Bob Rubin.

FAX TRANSMITTAL SHEET

RECEIVER TELECOPIER NUMBER: 395-6958

TO: Laura Tyson

FROM: Alan Krueger

DATE: **TIME:**

PAGE NUMBER ONE OF 15 **PAGES**

TRANSMITTER TELECOPIER: (202) 219-7971

ADDITIONAL COMMENTS:

Minimum wage talking points.

IF YOU HAVE QUESTIONS REGARDING THIS FAX CALL:

MEMORANDUM FOR MINIMUM WAGE WORKING GROUP

FROM: Stephen Gaskill

RE: Final Minimum Wage Materials

DATE: January 24, 1995
Noon

Attached are the final minimum wage materials that are being distributed around the Hill and the White House.

attachments

MAKING WORK PAY – THE CASE FOR RAISING THE MINIMUM WAGE
TALKING POINTS

Despite the growing economy and the impressive decline in unemployment under the Clinton administration, many Americans are finding it difficult to make ends meet.

- The unemployment rate stands at 5.4%, the lowest level in 4 years.
- The help wanted index has been climbing.
- The average real hourly wage of male high school graduates fell by 19% since 1979, and by 3% for women.
- 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 hardworking Americans.

The minimum wage is worth less than it used to be. The current minimum wage is $4.25 per hour -- or only $8,500 per year for a full-time year round worker.

- Adjusted for inflation, the value of the minimum wage has fallen by nearly 50 cents since 1991, and is now 27% lower than it was in 1979.
- According to a recent study, the fall in the real value of the minimum wage since 1979 accounts for 20% of the rise in the wage inequality for men, and 30% for women.
- 20% of those affected by the last minimum wage increase were in poverty, and an additional 13% were near poverty.

Many adults rely on the minimum wage as a living wage.

- The last time the US raised the minimum wage – almost 4 years ago – that worker brought home half of his or her family's earnings.
- Two-thirds of minimum wage workers are adults over the age of 21.

Even with the Earned Income Tax Credit (EITC), which President Clinton expanded in 1993, a worker in a full-time year round job earning the minimum wage does not even make enough money to meet the Federal poverty level for a family of 3 (1 worker and 2 children).

- o The Congressional Budget Office (CBO) projects that the poverty line for a family of 3 will be $12,557 in 1996. A worker earning the current minimum wage of $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. This tax credit is insufficient to raise the family's income above the poverty line in 1996.

- o A worker with 2 children earning $10,000 at a full-time year round minimum wage job paying $5.00 an hour will receive the maximum EITC tax credit ($3,560) and increase the family income to $13,560 -- $1,000 above the projected poverty line for 1996.

Americans know a raise in the minimum wage is one way to help make work pay.

- o A Wall Street Journal/NBC News poll is favored by a margin of 75% to 20%. Further, a breakout shows support among blacks of 77%, women of 78% and young adults ages 18 to 34 of 85%. These are the groups most affected by an increase in the minimum wage.

Despite current posturing, increasing the minimum wage traditionally garners bipartisan support.

- o In 1989, the vote on increasing the minimum wage was 382 to 37 in the House, and 89 to 8 in the Senate.

Currently, 9 states and the District of Columbia have minimum wages that exceed the Federal minimum wage:

- o Alaska, Connecticut, Hawaii, Iowa, New Jersey, Oregon, Rhode Island, Vermont and Washington have a higher minimum wage.

- o Hawaii's minimum wage is $5.25 an hour; New Jersey's is $5.05.

MAKING WORK PAY -- THE CASE FOR RAISING THE MINIMUM WAGE FACT SHEET

Americans know a raise in the minimum wage is one way to help make work pay. 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 hardworking Americans. And for those middle class Americans that already rely on the minimum wage, an increase is essential to their standard of living.

THE PROBLEM: THE MINIMUM WAGE IS WORTH LESS THAN IT USED TO BE

The American economy created more jobs in 1994 than in any calendar year for a decade. The unemployment rate fell to 5.4% in December, the lowest level in over 4 years, and the help wanted index has been climbing. However, census data for 1993 show that even in the current recovery the poverty rate has risen, and since 1979 the average real hourly wage of male high school graduates fell by 19%, and by 3% for women.

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 1991, and is now 27% lower than it was in 1979.

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 the wage inequality for men, and 30% for women (see DiNardo, Lemieux & Fortin). Further, 20% 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.

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. The last time the US raised the minimum wage -- almost 4 years ago -- that worker brought home 51% of his or her family's weekly earnings. The fact is, two-thirds of minimum wage workers are adults.

President Clinton expanded the Earned Income Tax Credit (EITC) as a way for poor families to help make ends meet -- but even with EITC, a worker in a full-time, year round job earning the minimum wage does not make enough money to meet the Federal poverty level for a family of 3 (1 worker and 2 children), which the Congressional Budget Office (CBO) predicts in 1996 will be $12,557. For that year, a worker with 2 children earning $8,500 -- the full-time year round wage at $4.25 an hour -- would receive a tax credit of $3,400 under the 1996 provisions of the EITC -- but still, this tax credit will not be sufficient to raise the family's income above the poverty line in 1996. However, for a worker with 2 children earning $10,000 (the full-time year round wage at $5.00 an hour), the EITC would provide the maximum tax credit ($3,560) and increase their family income to $13,560 -- $1,000 above the projected poverty line in 1996.

According to the Bureau of Labor Statistics, 4.2 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.

A MODERATE INCREASE IN THE MINIMUM WAGE DOES NOT COST JOBS

The standard criticism of the minimum wage is that it raises employer 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

A Wall Street Journal/NBC News poll of adults found that raising the minimum wage is "favored by 75% and opposed by only 20%" of respondents. This poll found that support for a minimum wage increase was stronger among blacks (77%), women (78%) and young people (85%, ages 18-34) -- the groups most likely to be affected by an increase. (Wall Street Journal, December 16, 1994)

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, nine states and the District of Columbia have minimum wages that exceed the Federal minimum wage (Alaska, Connecticut, Hawaii, Iowa, New Jersey, Oregon, Rhode Island, Vermont and Washington). Hawaii's minimum wage is $5.25 an hour; New Jersey's is $5.05.

MAKING WORK PAY -- QUESTIONS AND ANSWERS ON RAISING THE MINIMUM WAGE

With unemployment at its lowest level in 4 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 27% 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, effect 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, two-thirds are adults age 21 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 $20,000 a year with a $5.00 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.

Public support for a minimum wage increase is strong. A Wall Street Journal/NBC News poll found that 75% of adults favored a rise in the minimum wage. Support was strongest among blacks (77%), women (78%) and young workers (85%, ages 18 - 34) -- the groups most likely to earn the minimum wage.

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

More than 4.2 million workers paid by the hour had earnings at or below the minimum wage of $4.25 in 1993.

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 Kassebaum and Speaker Gingrich 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 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.

How can President Clinton claim to be a new kind of Democrat when his agenda includes increasing the minimum wage?

The President proposed to increase the minimum wage to make up for inflation during his campaign and in Putting People First.

MAKING WORK PAY -- SELECTED NEWSPAPER ENDORSEMENTS FOR RAISING THE MINIMUM WAGE

Question: What do you call a family living on the minimum wage? Answer: Miracle workers. Because the minimum wage isn't enough for a family to live on. At $4.25 an hour, the current minimum wage is $2.09 an hour less than what a family of four needs to reach the poverty cutoff. It's 27 cents lower than what is needed to support a mother and child....GOP lawmakers should stop preaching tax breaks for the rich and give some help to poor working stiffs. Increasing the minimum wage now, during an economic expansion, can help increase wage fairness and lift poor families from poverty....From 1979 to 1989, the wage was stuck at $3.35 an hour, losing nearly half its purchasing power. The result: a wider gulf between rich and poor, and an increasing reliance of working families on food stamps, tax credits and other welfare to make ends meet....That's not the way it should be. The nation needs to narrow the gap between rich and poor. It needs to reward work. It needs to lessen dependency. And it can help do that by gradually raising the minimum wage and making it a living wage again.

USA Today
January 18, 1995

Amid all of the talk about attacking welfare and giving people more incentive to work, a realistic minimum wage stands out like a beacon that would attract more of the poor into the labor force and make work pay off more for workers already there. That is what those at both ends of Pennsylvania Avenue say they want to do. Yet the minimum wage has languished at a paltry $4.25 an hour since 1991, losing more ground to inflation each year and further trapping its recipients in poverty....Raising the minimum wage is the most obvious means of combating that fiscal disincentive to work. Republicans interested in helping people help themselves will have a hard time arguing otherwise....The bogey-man threat of forced layoffs should the minimum wage rise carries even less legitimacy than usual. And more money in the pockets of workers means more money to be spent at the various businesses that seem so worried about a higher minimum pay scale....There is no way to reward or encourage work. Nor is is any foundation on which to build a strong society. America should redress such corrosive inequity. By substantially raising the wage floor, Washington can accomplish this without spending an extra dime from the taxpayers.

Buffalo News
Buffalo, New York
January 7, 1995

What better way is there to give people a sense of lifting themselves up rather than depending on the government to provide a decent wage? What better incentive could there be for people to want to work than a wage that would give them a start toward the American dream? The minimum wage stagnated throughout the Reagan years, stuck at $3.35 an hour while the cost of living accelerated. Even with the higher minimum approved during the Bush administration, families barely kept up. With inflation, the wage of $3.35 in 1981 would have to have reached $5.51 last year to maintain its buying power....What is more important at this point would be to reaffirm the basic argument behind the minimum wage: People who are willing to work deserve adequate compensation so they can support themselves. The new Republican majority, with its core belief in self-reliance, should easily agree.

St. Louis Post-Dispatch
St. Louis, Missouri
January 13, 1995

It is time to increase the minimum wage again. It is time to endure another round of propaganda for the sake of minimizing employee exploitation at the low end of the wage scale....It has been four years since the last increase. The level is falling further and further behind the intended benchmark of 50% of average hourly earnings that was in place when the minimum wage was established some 50 years ago....Behind the claims and the arguments is the indisputable fact that a minimum wage sets a minimum standard for fairness in a paycheck. Beyond dispute also is a current national unemployment level of 5.4% -- the lowest in four years and a fair gauge of full employment.

Lincoln Journal-Star
Lincoln, Nebraska
January 15, 1995

Appendix Table. Value of the Minimum Wage, 1955-1995

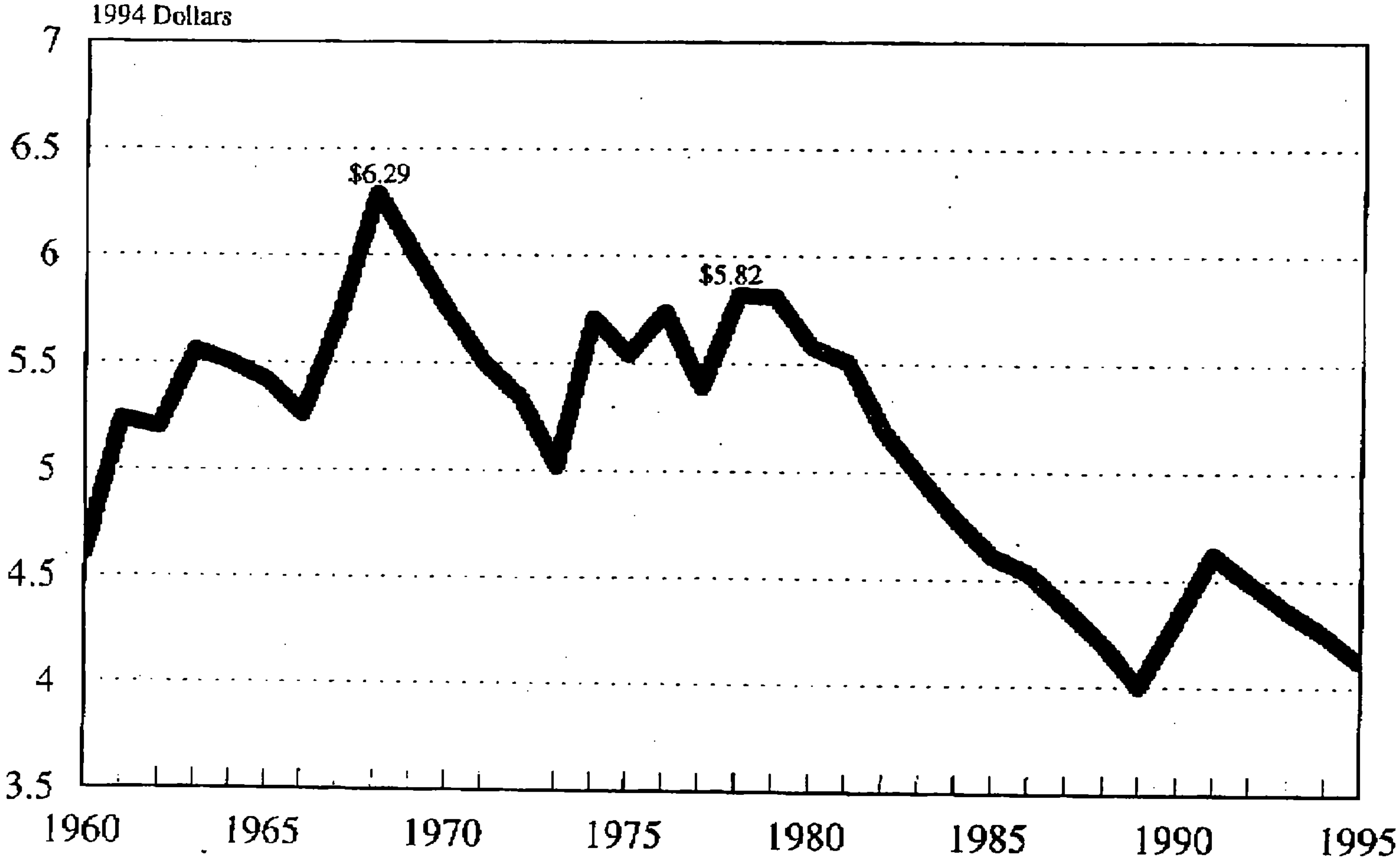
Year	Value of the Minimum Wage, Nominal Dollars	Value of the Minimum Wage, 1995 Dollars*	Minimum Wage as a Percent of the Average Private Nonsupervisory Wage
1955	$0.75	$3.94	43.9%
1956	1.00	5.16	55.6
1957	1.00	5.01	52.9
1958	1.00	4.87	51.3
1959	1.00	4.84	49.5
1960	1.00	4.75	47.8
1961	1.15	5.41	53.7
1962	1.15	5.36	51.8
1963	1.25	5.74	54.8
1964	1.25	5.67	53.0
1965	1.25	5.59	50.8
1966	1.25	5.43	48.8
1967	1.40	5.90	52.2
1968	1.60	6.49	56.1
1969	1.60	6.21	52.6
1970	1.60	5.92	49.5
1971	1.60	5.67	46.4
1972	1.60	5.51	43.2
1973	1.60	5.18	40.6
1974	2.00	5.89	47.2
1975	2.10	5.71	46.4
1976	2.30	5.92	47.3
1977	2.30	5.56	43.8
1978	2.65	6.00	46.6
1979	2.90	5.99	47.1
1980	3.10	5.76	46.5
1981	3.35	5.68	46.2
1982	3.35	5.36	43.6
1983	3.35	5.14	41.8
1984	3.35	4.93	40.3
1985	3.35	4.76	39.1
1986	3.35	4.67	38.2
1987	3.35	4.51	37.3
1988	3.35	4.33	36.1
1989	3.35	4.13	34.7
1990	3.80	4.44	37.9
1991	4.25	4.77	41.1
1992	4.25	4.63	40.2
1993	4.25	4.50	39.2
1994	4.25	4.38	n/a
1995	4.25	4.25	n/a

*Adjusted for inflation using the CPI-U-X1.

Source: Center on Budget and Policy Priorities

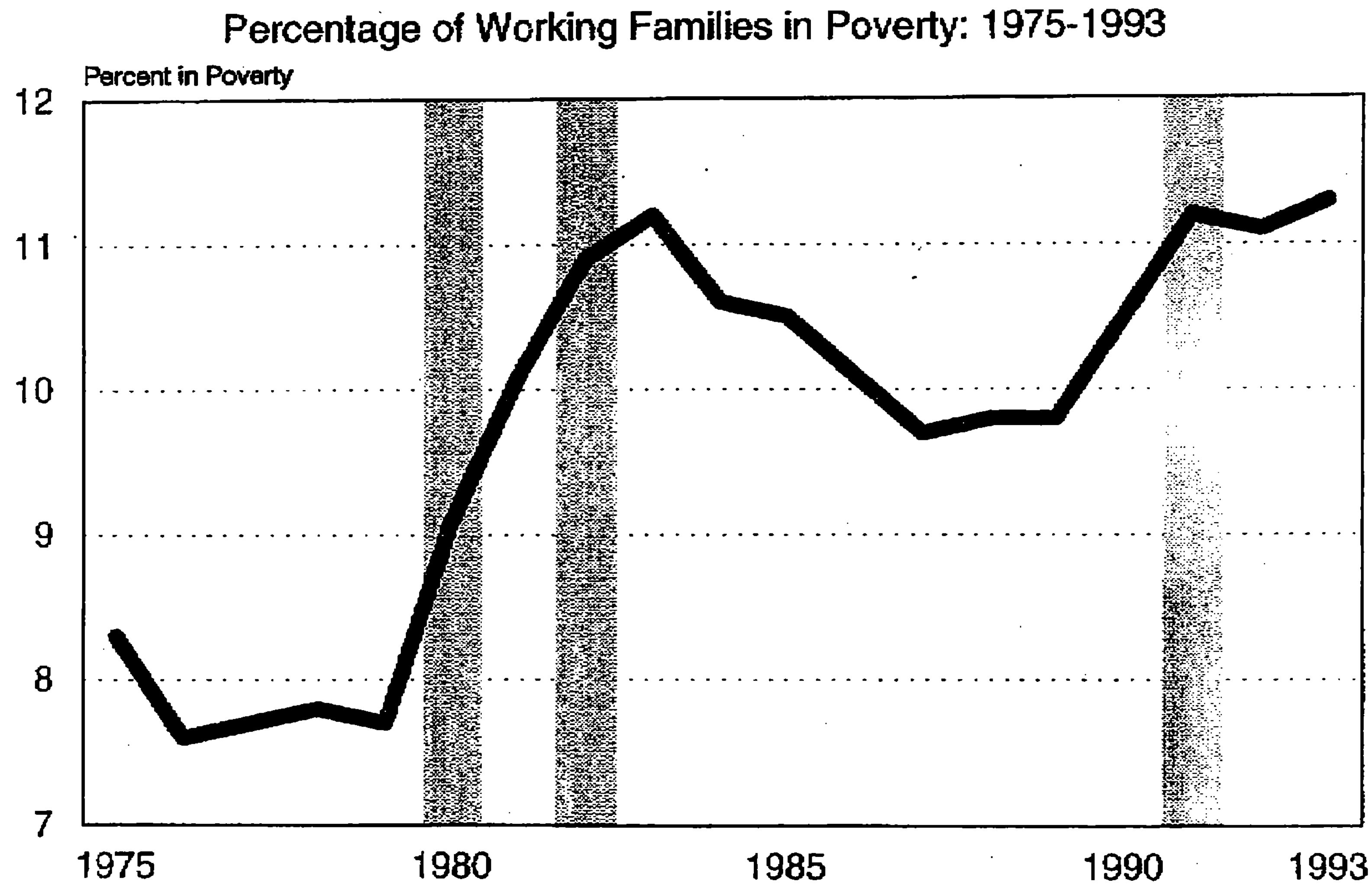
The Real Minimum Wage

1960-1995



NOTE: Minimum wage is in 1994 CPI-U-X1 Dollars. The inflation rate for 1995 is assumed to be 3.2 percent.

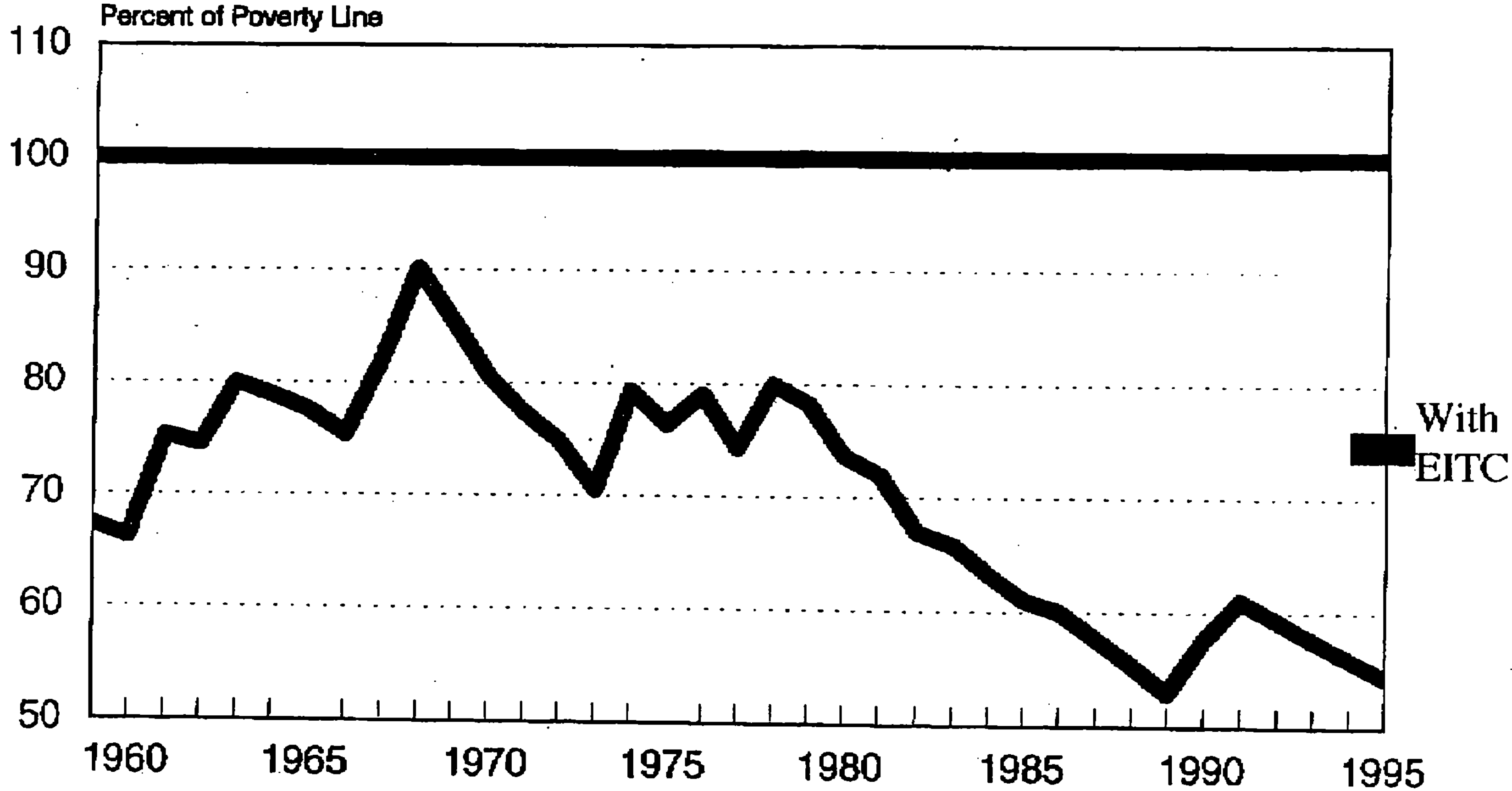
More Working Families are Poor



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

Minimum Wage Work Does Not Lift Families Out of Poverty

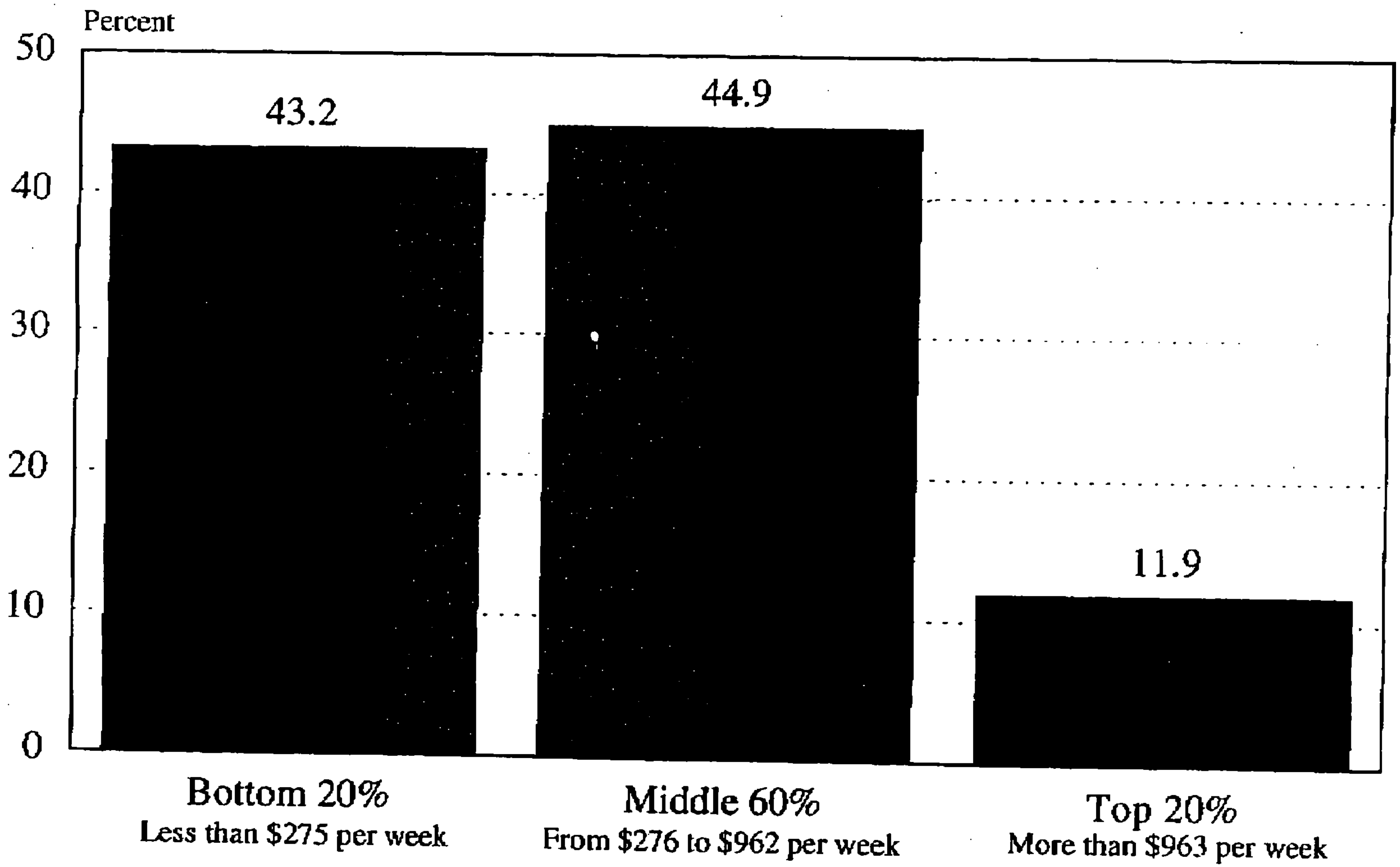
Annual Earnings at the Minimum Wage as a Percentage of the Poverty Line: 1959-1995



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

Who was Affected by the Last Minimum Wage Increase

Distribution by Family Earnings



Source: Card and Krueger (1995)

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Research Summary

o Over a dozen economic studies have found that a modest increase in the minimum wage has a statistically insignificant effect on employment.

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

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

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

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

o In a widely cited study, David Card and Alan Krueger (both of Princeton University) examine the impact of the 1992 increase in New Jersey's minimum wage (to $5.05 per hour) on employment in the fast food industry. They perform to types of comparisons. First, they compare the change in employment in New Jersey fast food restaurants to that in eastern Pennsylvania (along the NJ boarder). Second, they look within New Jersey, comparing restaurants that initially paid $4.25 per hour to those that paid $5.00 per hour or more. Both comparisons show that employment did not decline at stores that were compelled to raise their wages in response to the minimum wage increase compared to those that were unaffected by the increase. This paper was published in the American Economic Review, 1994.

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

o A study by Stephen Machin and Alan Manning of University College London, on the minimum wage in England -- which varied across industries -- concluded, "the findings suggest that the minimum wage had either no effect or a positive effect on employment." The study related changes in the minimum wage across industries to changes in employment across industries. (Note, England has since eliminated Wage Councils.) Published in Industrial and Labor Relations Review, January 1994.

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

o Professor Robert Solow of MIT, Nobel Prize Winner in Economics, is quoted in the NY Times (Jan. 12, 1995) as saying, **"When the minimum wage has deteriorated so much in purchasing power, there are probably enough people who would be worth the higher wage and would not lose their jobs."**

STUDIES THAT CONCLUDE A MODERATE INCREASE IN THE MINIMUM WAGE CAUSES AN INSIGNIFICANT LOSS OF EMPLOYMENT

Card, David. 1992. "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage." *Industrial and Labor Relations Review*, 46:22-37.

_________. 1992. "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-1989." *Industrial and Labor Relations Review*, 46:38-54.

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Freeman, Richard. 1994. "Minimum Wages -- Again!" *International Journal of Manpower*, 15:8-25.

Katz, Lawrence, and Alan B. Krueger. 1992. "The Effect of the Minimum Wage on the Fast Food Industry." *Industrial and Labor Relations Review*, 46:6-21.

Klerman, Jacob. 1992. "Study 12: Employment Effect of Mandated Health Benefits." In *Health Benefits and the Workforce*, U.S. Department of Labor, Pension and Welfare Benefits Administration. Washington, D.C.: U.S. Government Printing Office.

Machin, Stephen, and Alan Manning. 1994. "The Effects of Minimum Wages on Wage Dispersion and Employment: Evidence from the U.K. Wage Councils." *Industrial and Labor Relations Review*, 47:319-29.

Siskind, Frederic. 1977. "Minimum Wage Legislation in the United States: Comment." *Economic Inquiry*, January: 135-38.

Spriggs, William, David Winston, and Michael Simmons. 1992. "The Effect of Changes in the Federal Minimum Wage: Restaurant Workers in Mississippi and North Carolina." Unpublished paper. Washington, D.C.: Economic Policy Institute.

Wellington, Allison. 1991. "Effects of the Minimum Wage on the Employment Status of Youths: An Update." *Journal of Human Resources*, 26:27-46.

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Zaidi, Albert. 1970. *A Study of the Effects of the $1.25 Minimum Wage Under the Canada Labour (Standards) Code.* Task Force of Labour Relations, study no. 16. Ottawa: Privy Council Office.

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Talking Points on Minimum Wage and Employment

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

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

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

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Dickens, Richard, Stephen Machin, and Alan Manning. "The Effects of Minimum Wages on Employment: Theory and Evidence from the UK." NBER Working Paper No. 4742, Cambridge, MA, 1994.

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