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CENTER ON BUDGET AND POLICY PRIORITIES

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BOND AMENDMENT TO THE MINIMUM WAGE WOULD DENY RAISE TO HALF OF LOW-WAGE WORKERS

Under one of two amendments the Senate will consider when it debates the minimum wage bill, about half of all workers who otherwise would benefit from a minimum wage hike would be denied it. This is the principal finding of an analysis of the amendment the Center on Budget and Policy Priorities issued today.

The amendment, set to be offered by Senator Christopher Bond and to serve as the Republican floor amendment, would create sweeping exemptions to the minimum wage increase. It would make workers ineligible for the increase if they are in their first six months of work for their employer, work for a small business with revenues of less than \$500,000, or receive tips.

For workers in either of the first two of these categories, the minimum wage would remain \$4.25 an hour rather than rising in two steps to \$5.15. The \$4.25 an hour wage level is the lowest minimum wage level in terms of purchasing power since 1955.

The Center's analysis finds the Bond amendment would have the following effects:

- While the regular minimum wage would rise to \$5.15 an hour, the amendment would establish a subminimum wage of \$4.25 an hour for the first six months of a new hire's employment, regardless of an employee's age or experience. More than half of all workers paid the minimum wage — and 42 percent of all workers who earn less than \$5.15 and would otherwise benefit from the proposed minimum wage increase — would be denied the increase under the amendment. Census data show that four million low-paid workers would lose the minimum wage increase as a result.

By contrast, the House version of the legislation establishes a \$4.25 subminimum wage only for those who *both* are in their first 90 days on a job *and* are teenagers.

- The amendment also would deny the minimum wage increase to 1.5 million employees who earn less than \$5.15 an hour and work in establishments with revenues of less than \$500,000. Two-thirds of all businesses in the country fall into this category and would be exempt from giving their workers the minimum wage increase.

There is some overlap between the four million low-paid workers who would be

denied the wage increase because they are in their first six months of employment and the 1.5 million low-paid workers who are employed in small businesses. Overall, close to five million employees paid between \$4.25 and \$5.15 an hour — about half of the 9.7 million workers in this range — would lose the minimum wage increase.

- Up to two million additional employees who receive tips, such as waiters and waitresses, would lose the increase. Currently, they must be paid at least half the official minimum wage by their employers, or \$2.13 an hour. Under the amendment, they would still have to be paid only \$2.13 an hour, or only about 40 percent of the official minimum wage. The House bill also contains this provision.

In 1981, employers had to pay their tipped employees 60 percent of the minimum wage, or \$2.01 an hour. In the past 15 years, the wage these workers must be paid has risen only 12 cents an hour, climbing just six percent while the Consumer Price Index rose 75 percent. The wage these workers must be paid has declined 66 percent in purchasing power since 1981.

“The consequences of the Bond amendment are troubling for America’s working poor,” said Kathryn Larin, author of the report. “By exempting about half of the nation’s low-wage workers from the minimum wage increase, the bill would create a two-tiered system subjecting large classes of low-wage workers to what could be a permanent subminimum wage of \$4.25 an hour, already at a 40-year low in purchasing power.”

In addition to these exemptions, the Bond amendment delays the minimum wage increase for six months so an increase to \$4.75 an hour would not occur until January 1, 1997 and the increase to \$5.15 an hour would not occur until January 1, 1998. Under the House bill, these increases would occur in July 1996 and July 1997. These delays would cost full-time minimum wage workers nearly \$1,000 in lost wages over the next 18 months.

The Center on Budget and Policy Priorities is a nonpartisan research organization and policy institute that conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and middle-income people. It is supported primarily by foundation grants.

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July 3, 1996

THE BOND AMENDMENT TO THE MINIMUM WAGE BILL

by Kathryn Larin

On July 8, 1996, the Senate will begin consideration of the House-passed minimum wage bill, H.R. 3448. The Senate will consider only two amendments to the bill, a Republican amendment offered by Senator Bond and a Democratic amendment offered by Senator Kennedy.

Under the Bond amendment, about half of all workers who now make between \$4.25 and \$5.15 — and would otherwise benefit from raising the minimum wage to \$5.15 — would be denied a minimum wage increase.

- The Bond amendment calls for a subminimum wage for all employees in their first six months of work for their employer, regardless of their age or whether they have been employed at other establishments in the past. This provision alone would deny a minimum wage increase to more than four million of the nearly 10 million workers now making between \$4.25 and \$5.15 an hour.
- The Bond amendment would exempt all businesses with less than \$500,000 in annual revenues from the minimum wage increase. Two thirds of all businesses — 7.5 million — fall into this category. Some 1.5 million employees of these firms would be subject to a permanent subminimum wage of \$4.25 an hour, the lowest minimum wage level (after adjusting for inflation) in 40 years.¹
- There is some overlap between the employees covered by the 180-day subminimum wage and those affected by the small business exemption, but together these two groups account for about half of all low-wage workers who earn between \$4.25 and \$5.15 an hour and would otherwise benefit from an increase in the minimum wage.

¹ Estimates by U.S. Department of Labor, based on Current Population Survey, Bureau of Labor Statistics.

In addition to the groups mentioned above, the Bond amendment would also deny a minimum wage increase to as many as two million tipped employees, such as waiters and waitresses. Their employers would continue to have to pay them only \$2.13 an hour.

Finally, although the minimum wage has not been raised in more than five years, the Bond amendment would delay the effective date of the minimum wage increase an additional six months. A full-time minimum wage worker who was still covered by the legislation would earn nearly \$1,000 less over the next 18 months because of the delay.

Effects of the Subminimum on “New Hires”

The Bond amendment would provide for a subminimum wage equal to \$4.25 for the first six months of a new hire’s employment. This provision alone would consign more than four million workers to a subminimum wage. Unlike the subminimum “training wage” included in the 1989 minimum wage bill, this provision would require no training and would apply to workers of all ages, not just those under age 20. The minimum wage bill the House recently passed also established a subminimum wage, but the House bill limited it to the first 90 days of work for an employer and applied it only to workers under the age of 20.

A “new hire” would be anyone that a firm hires who has not previously worked at the firm. By the time the full increase in the minimum wage takes effect, the subminimum wage these new hires could be paid would be more than 20 percent lower than the official minimum wage.

- Census Bureau data show that in February 1995, some 54 percent of all workers earning the minimum wage had been working for their employer for less than six months.
- 42 percent of low-wage workers — those earning between \$4.25 and \$5.15 — would not be eligible for an increase under the 180 day new-hire subminimum proposed by the Bond amendment.²
- Since about two-thirds of minimum wage workers are 20 years of age or older, large numbers of those subject to the subminimum wage would be adults.

² Unpublished data from the Current Population Survey, February 1995 Contingent Work supplement, Bureau of Labor Statistics.

- In addition, since nearly two-thirds of minimum wage workers aged 25 or over have four years of high school or some college education, many low-paid workers who had not dropped out of school would be subject to the subminimum wage.

These data suggest that a substantial number of workers who have learned their job and whose income is vital to the needs of their family could be paid the subminimum wage. The proposed subminimum wage would be a particularly serious problem for farm workers, who by the very nature of their employment often remain with the same farm employer for less than six months. These workers could be paid the subminimum by each new employer.

The Bond amendment's "new hire" wage also would create an incentive for employers to "churn" their workers. Firms could pay a new worker the subminimum for six months, then replace that worker with another new worker who would be eligible for the subminimum. At the least, individuals who are approaching their seventh month of employment or have been employed for more than six months would be put in a precarious position, knowing their employer could bring in a replacement at a wage at least 20 percent lower than their own. The Bond amendment includes "anti-displacement" provisions to prevent churning, but they would be extremely difficult to enforce.

Small Business Exemption

The Bond amendment would exempt *two-thirds of all businesses* from compliance with the new minimum wage law. No previous minimum wage law has included such a broad exemption for small businesses. Before 1989, only small retail and service businesses were exempt from the minimum wage law.

- Of the 10.5 million employees of businesses with annual sales of less than \$500,000, an estimated 1.5 million currently earn less than the proposed minimum wage of \$5.15. None of those workers would be eligible for a wage increase.
- This provision denies minimum wage protections to many low-wage workers in industries that have previously been covered by the law. These include low-wage and often-exploited workers in

small garment industry sweatshops, farm workers working for small farming operations, and some janitorial workers.³

Many small businesses do not see the minimum wage as a major burden. A survey by the National Federation of Independent Businesses showed the minimum wage ranked 62nd in importance out of 75 issues. Among the smallest businesses — those with fewer than 10 employees — only six percent rated the minimum wage a critical problem. The Small Business Administration also has cited studies that show that only seven percent of small businesses consider the minimum wage a critical problem. In addition, recent experience with federal and state minimum wage reforms suggests that a moderate increase in the minimum wage would not be likely to have adverse employment effects of a significant nature.⁴

Exemption for “Tipped” Employees

Since 1966, employers have been required to pay their tipped employees a minimum of 50 percent of the statutory minimum wage, as long as employee tips brought their total hourly earnings up to the minimum wage. Under current law, employers are thus required to pay employees \$2.13 an hour if their tips bring their hourly earnings up to \$4.25.

The Bond amendment would freeze the employer contribution to tipped employees’ wages at \$2.13 per hour, allowing it to fall below 50 percent of the official minimum wage. A tipped employee now earning the minimum wage of \$4.25 an hour including tips would have to make up the full increase in the minimum wage — 90 cents per hour — through increased tips to maintain total wages equivalent to the new \$5.15 minimum wage.

Tipped employees have already seen their required minimum cash wages sharply eroded by inflation over recent years. As a percentage of the minimum wage, the minimum cash wage that employers must pay also has fallen. In 1981, employers were required to pay tipped employees 60 percent of the minimum wage. By 1991,

³ Since 1938, minimum wage laws have covered workers engaged in interstate commerce, the production of goods for interstate commerce, or any activity closely related and directly essential to producing goods for interstate commerce, regardless of the size of the employer. The one exception was from 1961 to 1989 when small retail and service establishments were exempt from this coverage. The Bond amendment would go beyond any previous minimum wage bill and exempt all employees previously covered by the interstate commerce provision if they work for a small business. It exempts many employees who have always been covered by previous minimum wage laws.

⁴ See Isaac Shapiro, “Four Years and Still Falling: The Decline in the Value of the Minimum Wage,” The Center on Budget and Policy Priorities, January 1995.

employers were required to pay only 50 percent of the minimum wage. Under the Bond amendment, the employer-paid wage would drop to near 40 percent of the minimum wage.

- Since 1981, tipped employees have seen their legally required cash wage increase only 11.5 cents per hour — from \$2.01 to \$2.13 — while the full minimum wage increased 90 cents an hour — from \$3.35 to \$4.25. During this period, the Consumer Price Index rose 75 percent while the legally required wage these workers must receive rose just 6 percent.

<u>Date</u>	<u>Minimum Wage</u>	<u>Cash Wage Required</u>
1/1/81	\$3.35	\$2.01
1/1/90	\$3.80	\$2.09
1/1/91	\$4.25	\$2.12½

In inflation-adjusted terms, the minimum wage these workers must be paid by their employers has fallen 66 percent since 1981.

- The Labor Department estimates that as many as two million waiters and waitresses and their assistants who typically work for tips would be denied a wage increase under this aspect of the Bond amendment.

The proposal would deny minimum wage increases to some of the lowest-paid workers in the economy — delivery personnel, waitpersons and servers. While the law would still require that the cash wages paid by the employer plus employee tips must bring the employee's hourly wage up to the prevailing minimum wage, there are no effective mechanisms in place to enforce this requirement. If tips do not increase with the increase in the minimum wage, many tipped employees will be working for a subminimum wage.

The Value of the Minimum Wage under the Bond Amendment

The Bond amendment would delay until January 1, 1997 the proposed increase in the minimum wage to \$4.75 an hour. It would delay until January 1, 1998 the increase to \$5.15. Under the House-passed version of the bill, the first step of the increase would take effect in July 1996, and the second step would occur in July 1997. Low-wage workers who have not gotten a raise in five years would, under the amendment, wait another six months for a salary increase.

- The minimum wage has stood at \$4.25 an hour since April 1991. During this time, consumer prices have increased more than 15 percent. The value of the minimum wage will likely erode somewhat further by next January.

Who Benefits from an Increase in the Minimum Wage?

There are many popular misconceptions about minimum wage workers. Minimum wage workers are often mistakenly thought of as primarily teenagers. In fact:

- About 70 percent of minimum wage workers are workers are 20 years old or over. Nearly half are 25 or older.
- 35 percent of workers who would benefit from a minimum wage increase to \$5.15 are the sole breadwinner in their family.
- More than three of every five minimum wage workers — 63 percent — are women.

Most minimum wage workers are not poor. But those making this point often fail to note a second point of some importance — among workers who are poor, the majority earn wages at or near the minimum wage. In 1992, nearly two-thirds of workers living in families with incomes below the poverty line had earnings below \$5.00 an hour.

One final point may be noted — more than two million children live in poor or near-poor families where a worker would get a raise if the minimum wage is increased to \$5.15 per hour.

- The real value of the minimum wage is already at a 40-year low. Adjusted for inflation, the minimum wage is now worth less than at any point since 1955.
- A full-time minimum wage worker would earn over \$500 less over the last six months of 1996 because of the delay proposed under the Bond amendment. Such a worker would lose nearly \$500 more during the last six months of 1997.

Bond Amendment Denies Minimum Wage Increase for Millions of Workers

The Bond amendment would exempt *as many as half of* low-wage workers from protection under minimum wage laws, denying a minimum wage increase to millions

of workers. It would create a two-tiered system whereby large classes of low-wage workers would be subjected, perhaps permanently, to a subminimum wage of \$4.25 an hour, a pay level that already provides less in purchasing power than the minimum wage has provided at any other time in the last 40 years.

DRAFT

May 6, 1996

RAISING FAMILIES WITH A FULL-TIME WORKER OUT OF POVERTY: THE ROLE OF AN INCREASE IN THE MINIMUM WAGE

By Robert Greenstein

Most Americans would probably agree that if a parent works full time throughout the year, the parent and his or her children should not have to live in poverty. Few policymakers of either party or any ideological stripe would defend the idea that children growing up in a family with a full-time working parent should be poor.

As a result, a bipartisan goal emerged in the late 1980s and early 1990s that full-time minimum wage work should lift a family of four to the poverty line. The Heritage Foundation set forth this goal in early 1989 in *Mandate for Leadership III*, its volume of advice to incoming President George Bush. The centrist Progressive Policy Institute espoused a similar goal in 1989. In addition, President Clinton endorsed this goal in the first major address of his presidency in February 1993.

Specifically, the goal has been that a combination of full-time minimum wage earnings net of payroll taxes, the Earned Income Tax Credit, and food stamps should place a family of four at least at the poverty line. The large expansions of the EITC enacted in 1990 and 1993 were designed in substantial part to help achieve this goal.

But the goal has not been attained. A family of four with a parent working full time year round at the minimum wage remains \$750 below the poverty line in 1996. Furthermore, because the minimum wage is not indexed for inflation and food stamp benefits would be cut across-the-board under all major pending welfare bills — including both Republican and Democratic bills — the family of four with a parent working full time at the minimum

Table 1

The Minimum Wage and the Poverty Line (for a family of four in 1996)	
Poverty Line	\$16,001
Income	15,252
Full-time minimum wage earnings (2000 hours of work)	(8,500)
Payroll taxes	(-650)
EITC	(3,400)
Food Stamps	(4,002)
Amount by which income falls below the poverty line	749

wage is likely to fall more than \$1,200 below the poverty line in 1997 if a welfare bill is enacted.

Indeed, working poor families are worse off now than in the 1970s despite the large EITC expansions that have occurred since then. The decline in the purchasing power of the minimum wage, now nearing a 40-year low, has more than outweighed the EITC expansions.

Restoration of part of the lost value of the minimum wage could reduce this erosion in the living standards of working poor families and bring families of four with a full-time minimum wage worker to the poverty line. This analysis finds that an increase in the minimum range to the vicinity of \$5.15 an hour would reach this goal. (Specifically, depending on whether welfare legislation cutting food stamp benefits is enacted and on the assumptions used regarding the number of hours that full-time year-round work entails, the minimum wage would need to be raised to between \$4.92 and \$5.35 an hour to reach the poverty-line goal; \$5.15 is squarely in the middle of this range.) This, of course, is not the sole criterion by which to judge what the appropriate level of the minimum wage should be.

Some policymakers have recently suggested another route involving no adjustment in the minimum wage and an increase in the earned income credit instead. The earned income credit is an extremely valuable tool to help low-income working families. But the earned income credit and the minimum wage are best viewed as complements to one another; neither can do the full job alone. Too great an emphasis on the earned income credit can either raise government costs too high or increase marginal tax rates — and work disincentives — in the income range over which the EITC is phased down as income rises. Similarly, a minimum wage set too high can adversely affect employment. With the EITC having been increased substantially in 1986, 1990, and 1993 and with the minimum wage nearing a 40-year low, an adjustment in the minimum wage now seems appropriate.

How Far Do Families Fall With Minimum Wage Earnings Below the Poverty Line?

Full-time year-round work at the minimum wage pays \$8,500 a year. After payroll taxes are subtracted, this provides disposable income of \$7,850. In 1996, a family of four with \$8,500 in earnings qualifies for an EITC of \$3,400 and, if its assets are low enough, for food stamp benefits of \$4,000. (About half of working poor families with children actually receive food stamps.) The family's total income thus is about \$15,250.

But the poverty line for a family of four is projected to be \$16,000 in 1996.¹ The family falls \$750 below the poverty line.²

This gap will grow wider with each passing year as the purchasing power of the minimum wage continues to erode with inflation. (The poverty line, by contrast, keeps pace with inflation.) In addition, the welfare conference report, the governors' welfare proposal, and the Administration's welfare proposal all contain food stamp benefit reductions that affect the working poor.

By 1997, assuming enactment of the governors' welfare proposal, a family of four with a full-time minimum wage worker will fall \$1,240 below the poverty line in the absence of a minimum wage increase.³ By the year 2000, such a family will fall more than \$2,200 below the poverty line, or more than two-and-a-half times as far below the poverty line as the family is today.

These Families Have Lower Incomes Than in the 1970s Despite EITC Expansions

In 1979, the minimum wage paid \$2.90 an hour. A family of four with a full-time minimum wage worker received \$5,800 in gross earnings, paid \$356 in payroll tax, and qualified for an EITC of \$400. This brought the family's income from wages and taxes to \$5,844, in 1979 dollars.

Adjusting for inflation, this equals \$12,395 in 1996 dollars. By contrast, the income from wages and taxes that a family with full-time minimum wage earnings now receives is \$11,250. In other words, despite the very large expansions in the EITC

¹ The Census Bureau has published poverty line figures through 1994. The Census Bureau computes each year's poverty line simply by taking the poverty line for the previous year and increasing it by the change since the previous year in the Consumer Price Index. Thus, the poverty line for 1995 can now be computed. The poverty line for 1996 and succeeding years can be projected by taking the poverty line for 1995 and increasing it in accordance with the Congressional Budget Office's forecast of the change each year in the CPI.

² These calculations are for a family that works 2,000 hours a year, the standard definition of full-time work. If the family worked 2,080 hours (40 hours a week for 52 weeks), its total income, including taxes and benefits, would be \$327 higher. It would fall below the poverty line by about \$420. Food stamp benefits were calculated assuming that the household's shelter costs were equal to the median shelter cost for a food stamp household of four in fiscal year 1993 with at least \$500 per month of gross earned income, adjusted for inflation between 1993 and 1996.

³ The level of the food stamp benefit reductions affecting a typical family of four with full-time minimum wage earnings are fairly similar in all major welfare proposals. If this computation is done using the food stamp reductions in the vetoed reconciliation bill or in the Administration's budget, the results do not change much.

since 1979, a family of four with a full-time minimum wage earner receives \$1,150 less from wages and taxes today than such a family received in 1979.⁴

The main reason for this is that the decline in the value of the minimum wage since 1979 is greater than the increase in the EITC over this period.

Measured in today's dollars, full-time minimum wage earnings have fallen \$3,800

since 1979, while the value of the EITC that a family of four receives if it has full-time minimum wage earnings has increased \$2,550.

Table 2

The Income of a Minimum Wage Family, 1979 vs. 1996 (for a family of four; measured in 1996 dollars)		
	<u>1979</u>	<u>1996</u>
Minimum Wage Earnings	\$12,302	\$8,500
Payroll Tax	-755	-650
EITC	<u>848</u>	<u>3,400</u>
	12,395	11,250
With Food Stamps	<u>3,105</u>	<u>4,002</u>
Total	\$15,500	\$15,252

As noted earlier, many working poor families do not receive food stamps. For those families with full-time minimum wage earnings that do receive food stamps, food stamp benefits are higher now than in 1979 because the family's earnings are lower. Food stamp benefits decline as income rises, and increase as income falls. Largely as a result, the food stamp benefits such a family could receive today if it qualified and applied for food stamps would be \$900 higher than the benefits it could have received in 1979, measured in today's dollars. Even so, the family's overall disposable income would still be several hundred dollars lower than what it would have received in 1979.

If one looks back to the early 1970s rather than to the late 1970s, the decline in income is sharper for single-parent families. In fact, the income of single-parent minimum wage families is substantially lower now than it was in the early 1970s *before the EITC was created*. An analysis by the Department of Health and Human Services has found that the disposable income of a mother with two children who works full time throughout the year at the minimum wage is \$1,980 — or 12 percent — lower in 1996 than it was in 1972, before the EITC's inception. The income of a mother with two children who works 30 hours a week throughout the year at the minimum wage is now approximately \$2,890 — or 18 percent — below what it was in 1972.⁵ The especially large drop in the income of these families is due both to the erosion in the minimum

⁴ Figures for 1979 are adjusted for inflation using the CPI-U-X1, rather than the regular CPI, which rises more rapidly. If the regular CPI is used instead, the decline in disposable income is several hundred dollars larger.

⁵ The inflation adjustments in the HHS analysis also use the CPI-U-X1.

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Table 3

AVERAGE DISPOSABLE INCOME FOR A MOTHER AND TWO CHILDREN FROM WAGES, AFDC, FOOD STAMPS, EITC, AND FEDERAL TAXES (in 1996 dollars)			
Number of Hours Worked Per Week At Minimum Wage Throughout the Year			
<u>Year</u>	<u>20 Hours</u>	<u>30 Hours</u>	<u>40 Hours</u>
1972	\$14,643	\$15,860	\$17,004
1980	12,467	13,978	14,980
1990	10,677	11,368	12,500
1996 (under current law)	11,357	12,972	15,026
Percentage Change in Average Disposable Income For a Mother and Two Children			
1972-1996	-\$3,286	-\$2,888	-\$1,978
	-22.4%	-18.2%	-11.6%
Source: Center on Budget and Policy Priorities, based on Department of Health and Human Services data			

wage and also to the fact that in the early 1970s, nearly all states provided AFDC as a wage supplement to a family with a parent with earnings at these levels. Only a small number of states do so today.

How Can This Matter Be Addressed?

Some contend that the way to address this problem is through a large expansion of the EITC for families with children, without any adjustment in the minimum wage. The minimum wage and the EITC are best viewed, however, as complementary to one another. They represent a sharing of the burden between the public and private sectors of helping low-wage working families better their conditions. Also, the minimum wage appears in each paycheck, while most families receive the EITC in a lump sum after the end of the year.

In recent years, the EITC has been raised substantially. It now equals 40 percent of the first \$8,890 in wages for a family with at least two children. Raising it to a higher level would further boost the incomes of working poor families but would also create a dilemma for policymakers. To raise the EITC from 40 percent of minimum wage

earnings to a substantially higher percentage — and to do so without increasing the EITC income limit for families with two or more children above its current level of \$28,500 — would both be costly and would require phasing down the EITC more steeply for families in the \$11,600 to \$28,500 range. That, in turn, would increase the already high marginal tax rates that some of these families face and increase work disincentives (a problem raising the minimum wage does not pose). To avoid increasing marginal tax rates, the EITC could be raised for very low-wage workers without phasing it down more steeply for those with incomes above \$11,600. That, however, would require increasing the EITC income limit — probably to more than \$30,000 in 1996 dollars — and increasing EITC costs to a still-greater degree.

A notion advanced by those calling for an EITC increase and a minimum wage freeze — that a significant increase in EITC costs from raising the EITC for working families with children can be avoided by eliminating the small EITC going to very poor adult workers without children — is not correct. The EITC for workers without children accounts for less than three percent of EITC costs. If it were eliminated and the savings spread evenly among all families with children that receive the EITC, each such family would receive an additional EITC benefit of just \$50 a year, the equivalent of a 2.5 cents-per-hour raise for a full-time minimum wage worker. Even if the savings from repealing the EITC for workers without children were targeted on a substantial proportion of — rather than all — families with children receiving the EITC, the effect would be small.

Furthermore, abolishing the EITC for adult workers without children as part of such an approach is unwise. Doing so would deny some of the poorest workers in the country a needed pay raise through a minimum wage increase while increasing their taxes at the same time. Their taxes would increase because the small EITC these workers receive simply offsets some or all of the payroll taxes they pay. Without the EITC, their tax burden would rise. This would be particularly ill-advised, since a Congressional Budget Office analysis has shown that poor workers without children are the single group in the country whose tax burden, measured as a percentage of their income, increased most between 1980 and 1993. (See a separate Center analysis, "The Consequences of Eliminating the EITC for Workers Not Raising Children.")

In short, the EITC for families with children has been expanded to an extent that further substantial increases cannot be made without significant government cost or the risk of adverse policy outcomes. Given recent research indicating that the employment effects of a modest increase in the minimum wage would be small, raising the minimum wage moderately is now the most sensible route to follow.

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Table 4

Level of Minimum Wage Increase Is Needed To Bring a Family of Four to the Poverty Line? (for 1998)				
	Full-Time Work = 2000 Hours (40 hours X 50 weeks)		Full-Time Work = 2080 Hours (40 hours X 52 weeks)	
	With Current Law Food Stamps	With Governors' Food Stamp Proposal	With Current Law Food Stamps	With Governors' Food Stamp Proposal
Poverty Line	\$16,992	\$16,992	\$16,992	\$16,992
Assumed Minimum Wage Level	\$5.11	\$5.35	\$4.92	\$5.15
Minimum Wage Earnings	10,220	10,700	10,234	10,712
Payroll Tax	-782	-819	-783	-819
EITC	3,758	3,758	3,758	3,758
Food Stamps	3,798	3,357	3,795	3,345
Total	16,994	16,996	17,004	16,996

Raising the Minimum Wage to Bring Families to the Poverty Line

If the minimum wage is raised in two steps — one in 1996 and one in 1997, as the Clinton Administration has proposed — to what level would it need to be raised to bring a family of four with a full-time minimum wage worker to the poverty line? The best way to answer this question is to examine the figures for 1998, since that is the first full year the minimum wage increase would be fully in effect.

As Table 4 shows, the minimum wage would need to be raised to \$5.35 an hour by 1998 if the food stamp cuts in the governors' welfare proposal are enacted. It would need to be raised to \$5.11 if no food stamp cuts are made.⁶

⁶ If full-time year round minimum wage work is defined as 2,080 hours a year rather than the standard definition of 2,000 hours, the minimum wage would need to be \$5.15 in 1998 if the food stamp cuts in the governors' welfare proposal are made and \$4.92 without any food stamp cuts.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

April 21, 1996

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

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

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

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

April 2, 1996

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

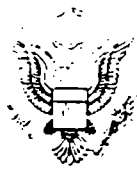
And I believe, if you go back to when they did it when -- the last time it was done was, when, '89 or something, I think, on balance, we did fine as a result of doing it. And I think we should do it again. [Remarks by President Clinton, Speaker Gingrich at Senior Center in Claremont, N.H., June 11, 1995]

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

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

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

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



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

THE CHAIRMAN

April 12, 1996

To The Editor:

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

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

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

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

Yours sincerely,

Joseph E. Stiglitz

Mr. Robert Bartley
Editor
Wall Street Journal
200 Liberty Street
New York, New York 102812

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.

Admin.
talking points
2/3/95

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

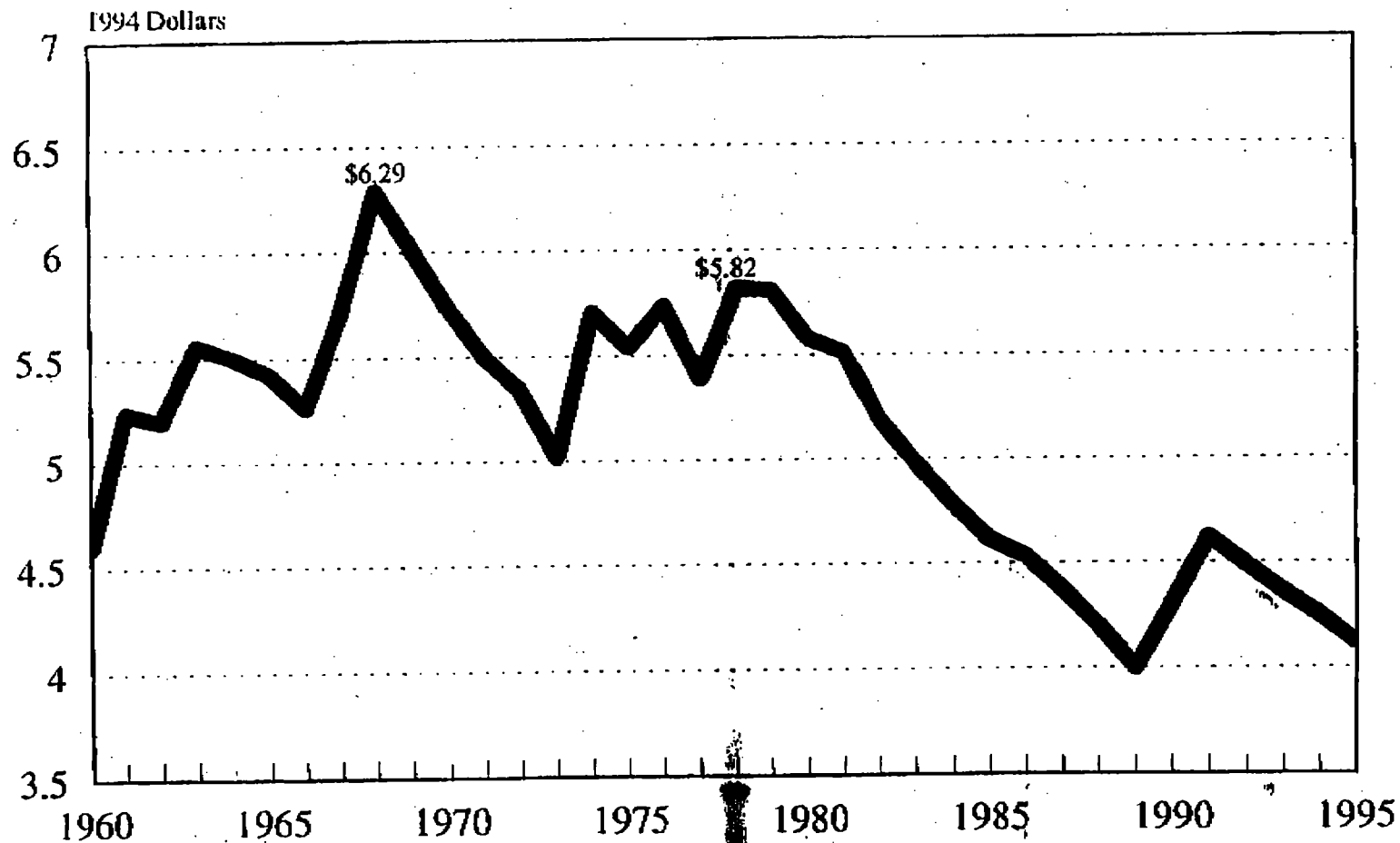
Year	Value of the Minimum Wage, Nominal Dollars	Value of the Minimum Wage, 1995 Dollars*	Minimum Wage as a Percent of the Average Private Nonsupervisory Wage
1955	\$0.75	\$3.94	43.9%
1956	1.00	5.16	55.6
1957	1.00	5.01	52.9
1958	1.00	4.87	51.3
1959	1.00	4.84	49.5
1960	1.00	4.75	47.8
1961	1.15	5.41	53.7
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.

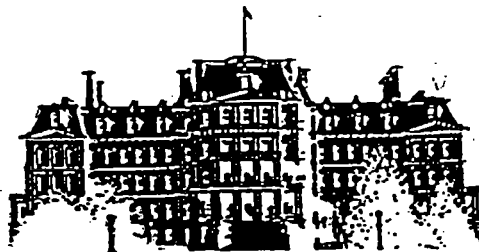
**STUDIES THAT FIND AN INCREASE IN THE MINIMUM WAGE
CAUSES A STATISTICALLY INSIGNIFICANT LOSS OF EMPLOYMENT**

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EXECUTIVE OFFICE OF THE PRESIDENT



THE OLD EXECUTIVE OFFICE BUILDING

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NO. OF PAGES (inc cover) 6

DATE: 2/8/95

SUBJECT: Talking points on

MESSAGE: minimum wage

Al- this is all I could scare up.
You might want to call Alan Krueger
at Labor (Chief Economist) for more
detailed material.

Mark



CENTER ON BUDGET AND POLICY PRIORITIES

FOR IMMEDIATE RELEASE:
Wednesday, January 11, 1995

CONTACT: Michelle Bazie
Isaac Shapiro
(202) 408-1080

MINIMUM WAGE DROPS TO SECOND LOWEST LEVEL SINCE 1955, REPORT FINDS

The purchasing power of the federal minimum wage is now at its second lowest level in four decades, according to a report released today by the Center on Budget and Policy Priorities.

The report — *Four Years and Still Falling: The Decline in the Value of the Minimum Wage* — found that after adjusting for inflation, the value of the minimum wage is above its level in 1989 but is below its level for every other year going back to 1955. If the value of the minimum wage were to have the same purchasing power in 1995 as it averaged in the 1970s, it would need to equal about \$5.75 an hour. Instead, it equals \$4.25 an hour.

Unless steps are taken to strengthen the wage floor, in 1996 inflation will push the purchasing power of the minimum wage below its 1989 level, thereby hitting its lowest annual level since 1955, the report said.

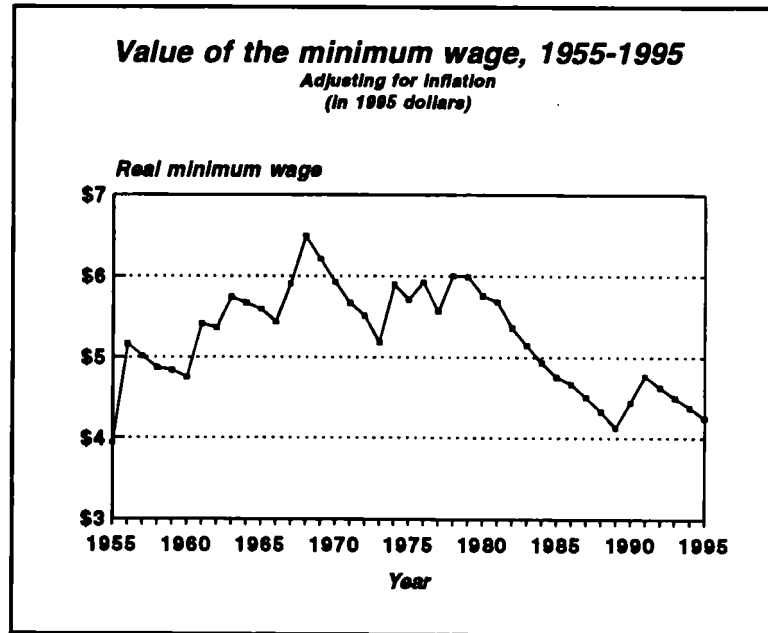
“It has been nearly four years since the minimum wage was last raised” said Isaac Shapiro, author of the Center report. “To help ‘make work pay’ and to assist struggling families with minimum wage workers, it’s time to restore the strength of our nation’s wage floor.”

The report also examined studies of the effects of changes in the federal and state minimum wage in the late 1980s/early 1990s on employment opportunities. These studies, conducted by several of the nation’s leading labor economists, suggest that a moderate increase in the minimum wage would have a negligible effect on employment, the Center found. After reviewing these studies, Harvard labor economist Richard Freeman, a noted expert in the area, concluded that these minimum wage increases did not have “any apparent adverse effect on employment.”

The Erosion in the Value of the Minimum Wage

For more than nine years from January 1, 1981 to April 1, 1990, the minimum wage remained frozen at \$3.35 an hour, the report said. Legislation signed by President Bush subsequently raised the minimum wage to its current level of \$4.25 an hour. These raises, however, made up less than half of the ground that had been lost to inflation. In 1991, *after* the minimum wage was increased to \$4.25 an hour, its value was 17 percent below its average level in the 1970s.

— more —



Since April 1991, the report explained, the minimum wage has stood still while the cost of living has risen another 11 percent.

As a consequence of these developments, the value of the minimum wage is now far below its traditional level, said the report. Its value is 26 percent below its average level during the 1970s, after adjusting for inflation. (See Figure.)

The wage standard has also fallen dramatically relatively to other wages, the report found. In the 1970s, the minimum wage averaged 46 percent of the average wage of private nonsupervisory workers. Currently, it equals 38 percent of the average wage.

“The only way to characterize the current value of the minimum wage is that it is extraordinarily low,” said Shapiro. “Even if inflation continues at a moderate pace, the purchasing power of the minimum wage will soon drop to its lowest level since President Eisenhower’s first term.”

New Studies on the Minimum Wage and Employment

The report also reviewed important recent studies that used several different methodologies to assess the employment effects of increases in the federal minimum wage both across the nation and in particular states, as well as the effects of raising state minimum wages above the federal level.

The studies discussed in the report included those that examined the effects of the federal minimum wage increases in 1990 and 1991. One of the state studies examined the effects of an 80-cent increase in the New Jersey state minimum wage, from \$4.25 an hour to \$5.05 an hour in 1992. Another examined the effects of a 90-cent increase in California's minimum wage from \$3.35 an hour in 1987 to \$4.25 an hour in 1988. These studies generally found that the minimum wage increases did *not* reduce employment opportunities.

After reviewing these and other studies of federal and state minimum wage changes in the late 1980s and early 1990s, Richard Freeman of Harvard University concluded: "That moderate increases in the minimum [wage] transferred income to the lower-paid without any apparent adverse effect on employment... at the turn of the 1990s is no mean achievement for a policy tool in an era when the real earnings of the less skilled fell sharply."

The Center's report echoes Freeman's observation that any net reduction in employment from a higher minimum wage that might occur among teenagers would be mitigated by the extremely high turnover rates of these workers. That is, even if a higher minimum wage means that it will take some low-wage workers a little longer to find a job, once they do find a job they will benefit from the higher wages.

"These studies do not suggest or prove that *any* increase in the minimum wage — no matter how large — would have only desirable effects," said Shapiro. "But the outcomes of the studies suggest that the labor market functions in a more complicated manner than has been assumed by those contending that virtually any rise in the minimum wage results in a significant decrease in employment levels. The studies suggest that when the minimum wage is at a low level, as it is today, the employment effects of a moderate increase in the minimum wage are likely to be negligible."

Labor Market Backdrop

The deterioration in the minimum wage has come at an unfortunate time, the report said. Over the past two decades, there has been a drop in the real wages of workers at the bottom of the pay scale, wages for middle class workers have been stagnant, and the wage gains that have occurred have been concentrated among the wealthiest workers. As a result of these divergent trends, wage inequality has grown considerably. There is mounting evidence that the erosion in the value of the minimum wage has contributed to the increase in wage inequality.

The report also found that in 1993, some 22 million people — more than half of the poor — lived in households with a worker. Among families with children where the householder is employed, the likelihood of being poor has increased. Some 7.7 percent of these families lived in poverty in 1977; by 1993, some 11.3 percent did.

Among workers paid by the hour, the Center found that workers earning at or below the minimum wage were almost four times as likely to be poor as workers earning above the minimum wage.

"If we want to help ensure that economic gains are shared more evenly among workers and help families earn their way out of poverty, a minimum wage increase is appropriate," Shapiro said.

The Characteristics of Minimum Wage Workers

Contrary to the popular stereotype, the large majority of minimum wage workers are not teenagers, the report found. Nor are they minorities. In 1993, among workers paid by the hour with earnings at or below the minimum wage:

- Less than one in three — 31 percent — were teenagers. About one in five — 22 percent — were 20 to 24 years old. Nearly half — 47 percent — were aged 25 years or older.
- Although minorities are overrepresented among minimum wage workers, an estimated 70 percent of hourly workers paid at or less than the minimum wage were non-Hispanic whites.
- More than three of every five minimum wage workers — 62 percent — were women.

The Minimum Wage and the EITC

The report also found that while the recent expansion in the Earned Income Tax Credit has helped offset the decline in the value of the minimum wage, the offset is only partial. Only a small fraction of minimum wage workers qualify for the maximum EITC on a per-hour basis. Even for those few minimum wage workers earning this maximum EITC, the increase in the value of the EITC has not fully offset the decline in the value of the minimum wage. In 1996 (when the EITC expansion is fully phased in), the *maximum* combined hourly value of minimum wage earnings and the EITC, minus payroll taxes, will be 12 percent below its combined value in 1979, after adjusting for inflation. For most minimum wage workers, the net drop is much larger.

The Center on Budget and Policy Priorities conducts research and analysis on a range of government policies and programs, with an emphasis on those affecting low- and moderate-income people. It is supported primarily by foundation grants.

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January 11, 1995

**FOUR YEARS AND STILL FALLING:
THE DECLINE IN THE VALUE OF THE MINIMUM WAGE**

By Isaac Shapiro

Overview

It has been nearly four years since the minimum wage was last raised. The resulting decline in the purchasing power of the minimum wage compounds the erosion in its value during the 1980s.

From January 1, 1981 to April 1, 1990 the minimum wage stood still at \$3.35 an hour. The wage standard was then increased in two steps to \$4.25 an hour on April 1, 1991, but this boost made up less than half the ground that had been lost to inflation. And since April 1991 — while the minimum wage has remained constant at \$4.25 an hour — the cost-of-living has risen another 11 percent.

As a consequence of these developments, the purchasing power of the minimum wage is now at its second lowest level in four decades. After adjusting for inflation, the value of the minimum wage is above its level in 1989, but is below its level for every other year going back to 1955. The extent of the wage standard's erosion relative to its traditional level of support has been substantial. If the value of the minimum wage were to have the same purchasing power in 1995 as it averaged in the 1970s, it would need to equal about \$5.75 an hour.

Recent experience with federal and state minimum wage reforms suggest that a moderate increase in the minimum wage could occur without adverse employment effects of a significant nature. This conclusion is based on an examination of important recent studies which used several different methodologies to assess the effects of raises in the federal minimum wage both across the nation and in particular states, as well as the effects of raising state minimum wages above the federal level. The conclusion is also based on a study that updated the best analysis of the employment effects of the minimum wage during the 1960s and 1970s with information through 1986.

For example, the studies of the federal minimum wage examined the effects of the 90 cent increase in two increments from 1989 to 1991. One of the state studies examined the effects of New Jersey raising its state minimum wage by 80 cents, from \$4.25 an hour to \$5.05 an hour in 1992; another examined the effects of California increasing its minimum wage 90 cents from \$3.35 an hour in 1987 to \$4.25 an hour in

1988 (which would equal about \$5.50 in 1995 dollars). All of these studies found that the minimum wage increases did *not* reduce employment opportunities.

After reviewing these and other studies of federal and state minimum wage changes in the late 1980s-early 1990s, the noted Harvard labor economist Richard Freeman concluded:

"That moderate increases in the minimum [wage] transferred income to the lower paid without any apparent adverse effect on employment ... at the turn of the 1990s is no mean achievement for a policy tool in an era when the real earnings of the less skilled fell sharply."

This analysis examines the value of the minimum wage relative to its previous strength; summarizes the results of the recent minimum wage and employment studies; and assesses the relationship between the minimum wage and the Earned Income Tax Credit.¹ (The recent expansion in the EITC, while very helpful, falls well short of offsetting the effects of the erosion in the value of the minimum wage.) The paper begins with a discussion of the economic context in which minimum wage reforms should be considered and a profile of minimum wage workers.

The Backdrop

The deterioration in the minimum wage has been ill-timed. This trend has occurred at the same time as, and has helped contribute to, several other economic trends of concern.

One corresponding trend has been a drop in the real wages of workers at the bottom of the pay scale since the early 1970s. This drop has occurred at the same time that wages for middle class workers have been stagnant; the wage gains that have occurred have been concentrated among the wealthiest workers. As a result of these divergent trends, wage inequality has grown considerably. And there is mounting evidence that the erosion in the value of the minimum wage has contributed to the increase in wage inequality.²

Another trend of concern has been the enduring problem of the working poor. In 1993, some 22 million people — more than half of the poor — lived in households

¹ The author would like to thank Larry Katz for his comments on a draft of this analysis.

² See, for example, John DiNardo, Nicole Fortin, and Thomas Lemieux, "Labor Market Institutions and The Distribution of Wages, 1973-1992: A Semi-parametric Approach," Unpublished paper, University of Montreal, 1994.

with a worker. Among families with children where the householder is employed, the likelihood of being poor has increased from 7.7 percent in 1977 to 11.3 percent in 1993.³

The Characteristics of Minimum Wage Workers

A large number of workers, but a relatively small fraction of the workforce, have earnings at or near the minimum wage. This can be seen by examining wage data for workers paid by the hour (the large majority of minimum wage workers are paid by the hour).⁴

- Some 4.2 million workers paid by the hour in 1993 had earnings at or below the minimum wage.⁵ This equaled 6.6 percent of hourly workers.
- An additional 9.2 million hourly workers had earnings just above the minimum wage. These are the workers who earned between \$4.25 an hour (the 1993 minimum wage level) and the average level of the minimum wage in the 1970s, after adjusting for inflation.⁶

Contrary to the popular stereotype, the large majority of minimum wage workers are not teenagers. Also of interest, most minimum wage workers are not minorities and most are women. In 1993, among workers paid by the hour with earnings at or below the minimum wage:

- Less than one in three — 31 percent — were teenagers. About one in five — 22 percent — were 20 to 24 years old. Nearly half — 47 percent — were aged 25 years or older.

³ A comparison of these two years is appropriate because they were at similar points in the economic cycle and had similar unemployment levels.

⁴ The data on minimum wage workers paid by the hour comes from the U.S. Department of Labor, Bureau of Labor Statistics. The Bureau has not tabulated corresponding data for minimum wage workers paid on a salaried basis.

⁵ Of these workers, 2.5 million received the minimum wage and 1.7 million were paid less than the minimum wage. Many of those paid less than the minimum wage were workers exempt from minimum wage law, others may have been illegally paid less than the minimum wage.

⁶ In 1993, the minimum wage would need to have equaled \$5.42 an hour if it were to have had the same value that it averaged during the 1970s, after adjusting for inflation.

- Although minorities are overrepresented among minimum wage workers, an estimated 70 percent of hourly workers paid at or less than the minimum wage were non-Hispanic whites.⁷
- More than three of every five minimum wage workers — 62 percent — were women.

Most minimum wage workers are able to escape poverty. This isn't because minimum wage earnings are large enough to lift a family above the poverty line; rather, this largely reflects the fact that minimum wage workers typically live in families with more than one worker. About one in five minimum wage workers live in poverty.

This should not suggest that the level of the minimum wage is of little economic consequence to households with more than one wage earner. Whether the example is a struggling moderate-income household with two earners where the minimum wage income is essential to the family's standard of living, or a young adult trying to earn enough to pay college tuition, these wages can be essential. An analysis of workers affected by the increase in the federal minimum wage from \$3.35 an hour to \$4.25 an hour found that minimum wage workers accounted for nearly half — 45 percent — of their household's total earnings.⁸

Although most minimum wage workers are not poor, the wage standard is of great importance to poor workers. The majority of poor workers have earnings at or near the minimum wage.⁹ Jobs paying at or near the minimum wage are also the most likely ones to be available to adults receiving Aid to Families with Dependent Children benefits. A stronger minimum wage would help facilitate the transition of such families into gainful employment.

It also bears mentioning that minimum wage workers are much more likely to be poor than other workers are. Among hourly workers paid at or below the minimum

⁷ Author's calculation based on Bureau of Labor Statistics data. An estimated 75 percent of *all* hourly workers were non-Hispanic whites.

⁸ David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage*, Princeton University Press, 1995.

⁹ This statement is based on an examination of the wage rates paid to hourly workers in March 1992 who were determined to be poor based on their families' income in 1991. Some 24 percent of such poor workers had earnings at or below the minimum wage of \$4.25 an hour. Another 34 percent were paid between \$4.26 an hour and \$5.00 an hour; and nine percent more were paid between \$5.01 and \$5.50 an hour. Only 33 percent were paid more than \$5.50 an hour. If the minimum wage in 1992 had equaled its average level of the 1970s, after adjusting for inflation, it would have equaled \$5.27 an hour.

wage in March 1992, some 22 percent were poor. By contrast, only six percent of hourly workers earning more than the minimum wage were poor.

Value of the Minimum Wage

From January 1981 to April 1990, the minimum wage remained frozen at \$3.35 an hour, despite a 48 percent jump in the cost of living. Legislation signed by President Bush subsequently raised the minimum wage in two steps to its current level of \$4.25 an hour.¹⁰ But these raises made up less than half of the ground that had been lost to inflation. In 1991, *after* the minimum wage was increased to \$4.25 an hour, its value was 17 percent below its average level in the 1970s.

Since April 1991, the minimum wage has stood still while the cost of living has continued to rise. The purchasing power of the wage standard has deteriorated further. Absent any increase in the minimum wage, and with continued inflation, the value of the minimum wage will continue to fall with each passing month.

In combination, recent action and inaction with respect to the minimum wage has led its value to drop far below two benchmarks commonly used to assess its worth.

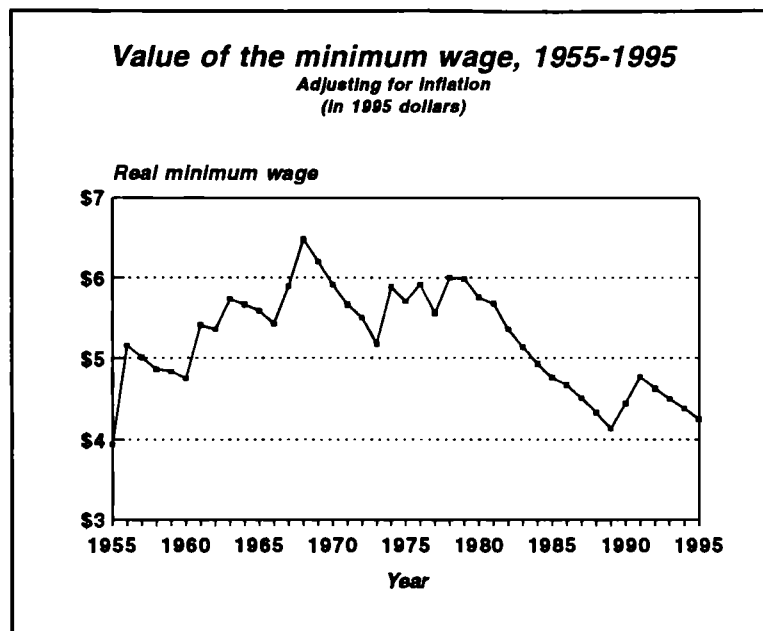
- The minimum wage falls well short of its traditional level of purchasing power. (See Figure 1.) If the value of the minimum wage were to have the same purchasing power in 1995 as it averaged in the 1970s, it would need to equal about \$5.75 an hour. Its value is now 26 percent below its average value in the 1970s, after adjusting for inflation.

The real value of the minimum wage is now above its value in 1989 *but is below its value for every other year going back to 1955*. In real terms, it is 35 percent below its peak value in 1968.

Absent steps to strengthen the wage floor, and even if inflation remains moderate, in 1996 the purchasing power of the minimum wage will drop to its lowest level in four decades.

- Similarly, changes in the minimum wage have not kept pace with changes in the wages of other workers in the economy. In the 1950s and the 1960s, the minimum wage averaged more than half of the average wage of private nonsupervisory workers. In the 1970s, it averaged 46 percent of the average wage. Currently, it equals 38 percent of the average wage. (See Table 1.)

¹⁰ This legislation passed the House by a vote of 382 to 37 and the Senate by 89 to 8. It received the support of virtually all Democratic members and the support of about 80 percent of Republican members.



Another comparison of interest is that during the 1960s and the 1970s, the earnings of a full-time minimum wage worker employed for the entire year typically were enough to lift a family of three out of poverty even without considering other sources of income. In 1995, full-time minimum wage earnings by itself will fall 27 percent below the estimated poverty line for a family of three.

In short, no matter which comparison is examined, the minimum wage currently provides much weaker support than it traditionally has in the past.

Employment Effects

The potential effect of a minimum wage increase on employment has been the principal argument raised in opposition to such an increase. The argument is made that a higher minimum wage would price a large number of workers out of the labor market. The effects are likely to be particularly harsh for teenagers, it is argued, since such a large proportion of young workers have earnings at the minimum wage and their jobs are among the most marginal.

While the potential employment effects of a minimum wage increase surely need to be considered, the weight of the empirical evidence suggests that the effects of a moderate raise from its current level are likely to be negligible. This conclusion is

Table 1. Value of the Minimum Wage

	Purchasing Power of the Minimum Wage in 1995 dollars	Minimum Wage as a Percent of the Average Nonsupervisory Wage
1960s average	\$5.65	52.2%
1970s average	\$5.74	45.8%
1980s average	\$4.93	40.4%
Current	\$4.25	37.7%

Note: The Appendix Table includes year-by-year data for 1955-1995.

based on a variety of recent studies employing different methodologies; the studies examined the effects of raises in the federal minimum wage both across the nation and in particular states, as well as the effects of raising state minimum wages above the federal level.

One recent analysis updated what had generally been considered the best study of the employment effects of the minimum wage during the 1960s and the 1970s. The new study used information through 1986. The update found the minimum wage had just a small effect on teenage employment; a 10 percent increase in the minimum wage was associated with a decrease of six-tenths of one percent in teenage employment.¹¹ (In addition, the effect was not large enough to be statistically significant). The study also found that there was no significant relationship between the level of the minimum wage and the level of employment of adults aged 20 to 24.

More importantly, studies of the impact of the increases in the federal minimum wage in April 1990 and April 1991 generally found that the increases did not reduce employment. David Card of Princeton University examined the effects of the minimum wage increase in 1990 on states with differing proportions of low-wage

¹¹ Alison J. Wellington, "Effect of the Minimum Wage on the Employment Status of Youths: An Update," *The Journal of Human Resources*, Winter 1991. Wellington updated the study conducted by economists for the federal Minimum Wage Study Commission, which found a 10 percent increase in the minimum wage to be associated with a one percent decrease in the employment of teenagers and a one-quarter of one percent decrease in the employment of young adults (20 to 24 year olds), and found no strong evidence of any job loss for adults age 25 and over. Charles Brown, Curtis Gilroy, and Andrew Kohen, "Time-Series Evidence of the Effects of the Minimum Wage on Youth Employment and Unemployment," *The Journal of Human Resources*, Winter 1983. Many of the estimates of large job losses made during the debate over the appropriate size of the minimum wage in the late 1980s were based on the high range of studies from the 1960s and the 1970s, often ignoring the review and update of these studies by Brown, Gilroy, and Kohen.

workers. This allowed Card to test if states with relatively more minimum-wage workers fared relatively worse on the employment front when the minimum wage increased. But this was not the case. Card reported: "Comparisons of grouped and individual state data confirm that the rise in the minimum wage increased teenagers' wages. There is no evidence of corresponding losses in teenage employment."¹²

Another notable study of the impact of the recent increases in the federal minimum wage was conducted by Lawrence Katz (of Harvard University) and Alan Krueger (while at Princeton University).¹³ Katz and Krueger examined the effects of the increases on the employees of fast-food restaurants in Texas. They analyzed the effects on restaurants with different levels of starting wages to test whether restaurants with lower starting wages — that is, those expected to be affected the most by an increase in the minimum wage — fared relatively worse on the employment front. This theory again did not prove true. Indeed, their findings suggest that the employment effects of the recent minimum wage increases, if anything, seem to be positive rather than negative.¹⁴

Card and Krueger have also examined the effects of recent increases in *state* minimum wage levels. These studies, too, found that the minimum wage increases did not reduce employment opportunities. For example, when New Jersey recently raised its minimum wage to \$5.05 an hour, Card and Krueger found no evidence of a negative effect on employment.¹⁵ (Their study approach included comparing employment trends in fast food restaurants in New Jersey to trends in eastern Pennsylvania, where the minimum wage remained constant. They found that employment trends were stronger in the New Jersey restaurants than in the Pennsylvania restaurants.)

Some recent studies of raises in the minimum wage have found that it had some negative effect on employment. All studies, however, do not deserve equal weight, and at least some of these other studies include methodological problems that affect their results. For example, one of the most widely cited of these studies was conducted

¹² David Card, "Using Regional Variation in Wages to Measure the Effects of the Federal Minimum Wage," *Industrial & Labor Relations Review*, October 1992.

¹³ Alan Krueger is currently on leave from Princeton University and is serving as Chief Economist of the U.S. Department of Labor.

¹⁴ Lawrence Katz and Alan Krueger, "The Effect of the Minimum Wage on the Fast-Food Industry," *Industrial & Labor Relations Review*, October 1992.

¹⁵ David Card and Alan Krueger, "Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania," *American Economic Review*, Volume 84, Number 4, September 1994. Also, see David Card, "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-89," *Industrial and Labor Relations Review*, October 1992.

by David Neumark and William Wascher.¹⁶ Their study, however, mistakenly assumes no teenagers are simultaneously attending school and working, when this is in fact a common occurrence. They also use a measure of the minimum wage that skews their findings. Card, Katz and Krueger reanalyzed Neumark and Wascher's data and corrected for these two problems; their reestimates find that the minimum wage does not negatively affect employment.¹⁷

Richard Freeman of Harvard University — long considered one of the nation's preeminent labor economists — just completed a review of the recent studies of the employment effects of the minimum wage and 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.

Studies based on employment across economic units such as states and counties yield more disparate results. Most studies, however, reject the notion that the late 1980s/early 1990s increases had adverse employment effects, and the studies that find adverse effects prior to those increases obtain small elasticities [meaning small employment effects] which confirm the effectiveness of the minimum in redistributing wage income.

...That moderate increases in the minimum transferred income to the lower paid without any apparent adverse effect on employment ... at the turn of the 1990s is no mean achievement for a policy tool in an era when the real earnings of the less skilled fell sharply."¹⁸

Freeman also observed that any net reduction in employment from a higher minimum wage that might occur among teenagers would be mitigated by the extremely high turnover rates of these workers. So even if a higher minimum wage means that it will take some low-wage workers a little longer to find jobs, once they do find a job they will benefit from the higher wages.

¹⁶ David Neumark and William Wascher, "Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws," *Industrial & Labor Relations Review*, October 1992.

¹⁷ David Card, Lawrence F. Katz and Alan B. Krueger, "Comment on David Neumark and William Wascher, 'Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws'", *Industrial and Labor Relations Review*, April 1994.

¹⁸ Richard B. Freeman, "Minimum Wages — Again!" *International Journal of MANPOWER*, Volume 15, Numbers 2/3, 1994.

These studies do not suggest or prove that *any* increase in the minimum wage — no matter how large — would have only desirable effects. But the outcomes of the studies suggest that the labor market functions in a more complicated manner than has been assumed by those contending that virtually any rise in the minimum wage results in a significant decrease in employment levels. For example, a higher minimum wage can make it easier for employers to fill vacancies and may decrease employee turnover. Both examples suggest circumstances in which a boost in the minimum wage can boost employment.

The studies do suggest that particularly when the minimum wage is at especially low levels, as it is today, the employment effects of a moderate increase in the minimum wage may be modest or negligible.

The Minimum Wage and the EITC

The recent expansion in the federal Earned Income Tax Credit has helped offset the decline in the value of the minimum wage. But the offset has been far from complete.

The EITC is a refundable tax credit that varies by earnings and family composition. Legislation enacted in 1993 provided for a large expansion in the EITC; under the new credit structure, a family with two or more children will receive an EITC equal to 40 percent of its earnings up to \$8,640.¹⁹ The legislation also established a new credit — albeit a small one — for low-income workers without children.

Under the new law, the maximum hourly wage subsidy received through the EITC is 40 percent, since families with two or more children with earnings of less than \$8,640 receive 40 cents in EITC benefits for each dollar earned. Minimum wage

¹⁹ The expansion for two or more children will not take full effect until tax year 1996; the figures cited here reflect the fully phased-in EITC, but they are expressed in 1995 dollars. The EITC will remain at its maximum level (40 percent of \$8,640 — or \$3,456) for families with two or more children and with incomes between \$8,640 and \$11,290. Once income exceeds \$11,290 the EITC will begin to decline in size. It will fall to zero when family income hits \$27,715.

The credit for families with one child is somewhat smaller. It is phased in at a 34 percent rate over a smaller earnings range and is phased out more quickly than the credit for a family with two or more children, falling to zero when family income hits \$24,396. For childless workers, the maximum EITC is 7.65 percent of earnings and phases out completely when income hits \$9,230.

workers living in other households will receive a smaller wage subsidy through the EITC for each hour worked or no EITC at all.²⁰

The new EITC levels — while representing a significant expansion over prior law — do not fully offset the fall in the value of the minimum wage. This is true for a number of reasons.

Even for those few minimum wage workers who qualify for an EITC wage subsidy of 40 percent (those living in families with two or more children with earnings of less than \$8,640 a year), the increase in the value of the EITC is less than the decline in the value of the minimum wage.²¹ This can be seen by calculating the “net wage” of a minimum wage worker.

For minimum wage earners earning the new *maximum* EITC per hour, the combined value of minimum wage earnings and the EITC, minus payroll taxes, is much less than the average combined value for comparable minimum wage workers at the end of the 1970s.²² The maximum net hourly pay of a minimum wage worker in 1996 (when the EITC is fully phased in) will be 12 percent below its value in 1979.²³

²⁰ For families with one child, the maximum hourly wage subsidy received through the EITC is 34 percent, which applies to such families with earnings of less than \$6,160. For childless workers, the maximum hourly wage subsidy received through the EITC is 7.65 percent, which applies to such workers with earnings of less than \$4,100.

²¹ AFDC benefits to working poor families have also dropped precipitously since the 1970s. If this decline were included in the calculations in the text, the net income of minimum-wage earners would be shown to have fallen even more since the 1970s.

²² It is standard practice to subtract out the employee’s share of payroll taxes when the value of the EITC is added in; this is done both because the EITC is designed in part to offset payroll taxes and because this is consistent with moving from a *before-tax* calculation (just the value of the minimum wage) to an *after-tax* calculation (adding in the EITC and subtracting payroll taxes).

²³ In inflation-adjusted dollars, the maximum after-tax net hourly pay of a minimum wage worker living in a family with two or more children and earning less than \$8,640 will be \$5.45 an hour in 1996, down from \$6.22 an hour in 1979. The estimates were calculated as follows. If the minimum wage remains unchanged from current law, in 1996 its purchasing power in 1995 dollars will equal \$4.11 an hour, the corresponding maximum hourly EITC benefit for a family with two or more children will be \$1.65 an hour and payroll taxes will be \$.31, yielding a net hourly wage of \$5.45. By comparison, in 1979, the minimum wage equaled \$5.99 per hour, after adjusting for inflation. For a family receiving the maximum hourly EITC benefit, the hourly value of the EITC was \$.60 (the EITC equaled 10 percent of hourly earnings for such families), and the hourly cost of payroll taxes was \$.37, yielding a net hourly wage of \$6.22.

Some have used the figure that the EITC raises the value of the minimum wage to \$6 an hour for certain families with two or more children. This figure differs from the \$5.45 an hour calculation both because the \$6 calculation neglects to subtract out payroll taxes and because it is expressed in 1996 dollars
(continued...)

Furthermore, only a small fraction of minimum wage workers qualify for a wage subsidy of 40 percent through the EITC. Minimum wage workers who do not live in families that have two or more children and earnings of less than \$8,640 will earn a smaller per-hour EITC or no EITC at all. As a result, net hourly pay has fallen much more than 12 percent since 1979 for the large majority of minimum wage workers. Many of these workers are poor themselves or live in families with modest incomes. In 1995, the estimated poverty line for a family of three is \$12,192; for a family of four, it is \$15,621.

In addition, unless the minimum wage is increased or indexed, the real value of the minimum wage will fall each year, and the net wage gap compared to the 1970s will grow. The EITC expansion is fully phased in as of 1996; under current EITC and minimum wage law, the net income of a minimum wage earner will begin to fall from 1997 onwards. (Although the EITC is indexed to inflation, the minimum wage will fall relative to inflation.)

The increase in the EITC does not fully offset the decline in the minimum wage for another reason as well. The delivery of EITC payments is usually not timely; virtually all EITC recipients receive their benefits in one lump sum payment when they file their taxes. Although there is interest in improving the EITC delivery system, such improvements are difficult to design, and it is unlikely that there will be much progress on this front in the near future. By contrast, the minimum wage is delivered in a more timely manner for struggling families — with each paycheck.

In short, the minimum wage and the EITC are best viewed as complementary policies and not as substitutes for each other. While criticisms of the minimum wage are typically overstated, it remains true that the EITC holds no risk of endangering employment opportunities and is adjustable by family size. On the other hand, the minimum wage has several advantages over the EITC — it does not raise marginal tax rates on any workers and is received in a timely manner throughout the year.²⁴ Moreover, relying on the EITC alone is likely to place too large a burden on the federal budget. A combined minimum wage/EITC approach reflects a balanced sharing of the burden of "making work pay" between the public and private sectors.

²³ (...continued)
instead of being expressed in terms of its purchasing power in 1995.

²⁴ In addition, money received through a private paycheck is, in some ways, inherently preferable to money received through a government program. This is true even when the program is the EITC, where there is no stigma attached.

Conclusion

Restoring the strength of the federal minimum wage is appropriate.²⁵ The combination of the new EITC and a minimum wage providing closer to its traditional level of support would help “make work pay” for poor and moderate-income workers. In addition to restoring the strength of the minimum wage, Congress should consider indexing the minimum wage to provide for an automatic annual adjustment process and protect against further erosion in the wage standard.²⁶

²⁵ Recent news reports have indicated that the Clinton Administration is considering endorsing a minimum wage increase of as much as \$1.00 per hour. A minimum wage of \$5.25 an hour in 1996 would still be 11 percent below its average value during the 1970s, after adjusting for inflation. A minimum wage increase to this level would be unlikely to have detrimental employment effects of a significant nature.

²⁶ Among the advantages to indexation are that it would result in small, predictable changes to the minimum wage to which labor markets could more easily adjust. It also would protect workers from the long periods of erosion in the value of the minimum wage that they have experienced in recent years. If the minimum wage is indexed, it is advisable to have changes in the wage floor be equivalent to changes in a measure of average wages. This indexation approach means that minimum wage workers would share equally in whatever wage progress is occurring. It also would avoid increases of inappropriate size during periods of general wage stagnation.

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.