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White House Briefing Room

November 4, 1999

TEXT OF A LETTER FROM THE PRESIDENT TO THE SPEAKER AND DEMOCRATIC LEADER OF THE HOUSE OF REPRESENTATIVES AND THE MAJORITY AND DEMOCRATIC LEADERS OF THE SENATE

THE WHITE HOUSE

Office of the Press Secretary
(Newark, New Jersey)

For Immediate Release November 4, 1999

TEXT OF A LETTER FROM THE PRESIDENT
TO THE SPEAKER AND DEMOCRATIC LEADER
OF THE HOUSE OF REPRESENTATIVES
AND THE MAJORITY AND DEMOCRATIC
LEADERS OF THE SENATE

November 4, 1999

I am writing this letter to encourage you to pass a straightforward minimum wage bill that gives working Americans the pay raise they deserve. If we value work and family, we should raise the value of the minimum wage.

In 1996, the Congress and I worked together to raise the minimum wage by 90 cents over 2 years. Since then, the American economy has created nearly 9 million new jobs -- with more than 1 million of them in the retail sector where many minimum-wage workers are employed. The unemployment rate has fallen from the already low rate of 5.2 percent to 4.2 percent -- the lowest in 29 years. We have enjoyed larger real wage increases for more consecutive years than at any time in more than two decades, while inflation is the lowest it has been in more than three decades. The minimum wage increase has contributed to the 39 percent decline in the welfare caseload since the last minimum wage increase -- bringing the welfare rolls down to their lowest level in three decades. And the minimum wage increase has been a crucial factor in reversing the wage stagnation and declines of the previous decade, contributing to rising wages for even the lowest income groups. Our recent experience clearly demonstrates that what is good for America's working families is good for America's economy.

But as our economy continues to break records, we must do more to ensure that all Americans continue to benefit from it. It is time to build on the steps we have taken to honor the dignity of work. The expansion of the Earned Income Tax Credit in 1993 and the increase in the minimum wage have ensured that no full-time working parent with two children has to raise his or her family in poverty. It is important that we take steps to achieve this goal in the future. That is why I have proposed to raise the minimum wage by $1 an hour over the next two years -- from $5.15 to $6.15. This modest increase would simply restore the real value of the minimum wage to what it was in 1982. More than 11 million workers would benefit under this proposal. A full-time, year-round worker at the minimum wage would get a $2,000 raise -- enough for a typical family of four to buy groceries for 7 months or pay rent for 5 months.

All Americans should share in our historic prosperity. This is why Congress should not let politics get in the way of raising the minimum wage. If you send me a clean bill that increases the minimum wage by $1 over the next two years, I will sign it.

Unfortunately, some in Congress have proposed a more gradual increase in the minimum wage that would cost a full-time, year-round worker roughly $1,500 over three years compared with my proposal. They have added provisions that would repeal important overtime protections for American workers. And they have been playing politics with the minimum wage bill, using it as a vehicle for costly and unnecessary tax cuts that would threaten our fiscal discipline. As I have stated repeatedly, before we consider using projected surpluses to provide for a tax cut, we must put first things first and address the solvency of Social Security and Medicare. If Congress sends me a bill that threatens our fiscal discipline, I will veto it.

If paid-for tax cuts are attached to the minimum wage bill, they should reflect our priorities and address urgent national needs like deteriorating schools and the communities that have been left behind during this time of prosperity. In contrast, the bulk of the provisions attached to the minimum wage bill in the House are directed away from working families. Some of these provisions could even reduce the retirement benefits enjoyed by millions of working Americans.

America's workers show up to work every day and get the job done. Congress should do the same this year. I urge Congress to pass a minimum wage bill that does not at the same time add poison pills that bypass the priorities of working families.

Sincerely,

WILLIAM J. CLINTON

# # #

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Citizens for Tax Justice
1311 L Street, NW
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Monday, Nov. 8, 1999
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Senate GOP Minimum Wage Hike Provides $75 Billion in Upper-Income Tax Breaks

Click here to see this analysis in PDF format.

The 114-page minimum wage increase bill introduced last Friday by Senate GOP leaders devotes its first two pages to a one dollar increase in the minimum wage over three years (to $6.15 an hour starting March 1, 2002). The bill's remaining 112 pages outline new tax subsidies, targeted to better-off taxpayers, that would total $75 billion over the next ten years.

According to an analysis of the Senate bill released today by Citizens for Tax Justice, more than half of the bill's tax abatements would go to the top fifth of all taxpayers. The analysis found:

- 55.2% of the bill's proposed tax breaks would go to the best-off 20 percent. The average annual benefit for taxpayers in the top fifth would be $237 a year in 1999 dollars.
- The bottom three-fifths of all taxpayers would get an average tax break of $38 a year (in 1999 dollars).
- The top one percent of all taxpayers would get 18.9% of the bill's proposed tax abatements, averaging $1,628 per year (in 1999 dollars).

"With Senate leaders taking 114 pages to increase the minimum wage, and House leaders looking at some 300 pages to do the same, I think we're starting to see a pattern here," said Citizens for Tax Justice director Robert S. McIntyre. "In both cases, a simple idea to help low-wage workers is being hijacked to give tax abatements to the better off."

The bill's major elements include:

- **Upside-down health insurance subsidies:** Individuals who purchase health insurance (including long-term care insurance) and whose employers pay less then half their health insurance costs would have a portion of their premiums paid by the government, through tax concessions. The subsidies would based on income levels, and would range from zero percent for those with the lowest incomes up to 39.6% for those with the highest incomes.
- **Business tax breaks:** Businesses with gross receipts below $7.5 million a year could write off 80% of their meals and entertainment expenses, rather than 50% under current law. A tax credit for hiring certain low-wage workers would be extended permanently. The amount of business capital expenditures that can be written off

immediately rather than depreciated over time would be increased.

- **Expanded pension tax breaks for high-income workers:** The upper limits on pension and 401(k) plan contributions and benefits would be raised substantially. The changes include increasing the maximum annual pension benefit under defined benefit plans from $90,000 to $160,000, raising the maximum annual contribution to a defined contribution plan from $30,000 a year to $40,000, increasing compensation that can be taken into account for pension contributions from $150,000 a year to $200,000, and raising the 401(k) elective deferral limit from $10,000 a year to $15,000.

A table detailing the results of the analysis follows.

Effects of the Senate GOP Tax Cuts in the Minimum Wage Bill (Annual effects at 1999 levels; $-billion except averages)

Income Group	Income Range	Average Income	Health & Long-Term-Care Insurance	Business Tax Breaks	Pensions & 401Ks	Total Tax Cuts	Average Tax Cut	% of Total Tax Cut
Lowest 20%	Less than $13,300	$ 8,400	$ –0.3	$ –0.0	$ –0.0	$ –0.3	$ –13	3.1%
Second 20%	$13,300–23,800	18,300	–0.9	–0.1	–0.0	–1.0	–38	8.8%
Middle 20%	$23,800–38,200	30,300	–1.5	–0.2	–0.0	–1.6	–64	14.8%
Fourth 20%	$38,200–62,800	49,100	–1.7	–0.3	–0.0	–2.0	–78	18.0%
Next 15%	$62,800–124,000	83,600	–1.9	–0.4	–0.1	–2.4	–127	22.2%
Next 4%	$124,000–301,000	173,000	–0.8	–0.4	–0.3	–1.5	–303	14.1%
Top 1%	$301,000 or more	837,000	–0.2	–1.2	–0.6	–2.1	–1,628	18.9%
ALL		**$ 48,700**	**$ –7.3**	**$ –2.5**	**$ –1.1**	**$ –10.9**	**$ –85**	**100.0%**
ADDENDUM								
Bottom 60%	Less than $38,200	$ 19,000	$ –2.6	$ –0.3	$ –0.0	$ –2.9	$ –38	26.7%
Top 20%	$62,800 or more	139,000	–2.9	–2.0	–1.0	–6.0	–237	55.2%

Figures show the annual effects of the $75 billion in tax abatements over the next 10 years included in the Senate GOP minimum wage increase bill. All provisions are measured as fully effective, at 1999 income levels. Estimates are from the Institute on Taxation and Economic Policy Tax Model. Citizens for Tax Justice, November 8, 1999

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DRAFT – *Not for Distribution* -- **REWARDING WORK: NOW IS THE TIME TO RAISE THE MINIMUM WAGE**

President Clinton and Congressional Democrats Propose to Increase the Minimum Wage By $1 in Two Steps To Help Raise Living Standards for More than 11 Million American Workers. In 1992, President Clinton promised to increase the minimum wage to help more families working hard but falling behind. In 1996, President Clinton signed into law a minimum wage hike, raising it from $4.25 to $5.15. But, there are still millions of workers trying to raise a family and struggling to make ends meet. With our economy the strongest in a generation, now is the time to help these workers make ends meet by raising the minimum wage again. The proposal would increase the minimum wage from $5.15 to $6.15 over two years, through two 50-cent increases. For someone who works full-time, this minimum wage increase will mean an additional $2,000 per year.

- **A Higher Minimum Wage Will Help 11.4 Million Americans -- Mostly Adult Workers Trying To Support Their Families.** According to data from the Bureau of Labor Statistics, 11.4 million hourly paid workers earn between $5.15 and $6.14 and would directly benefit from this pay raise. Over two-thirds (70%) of the workers who would benefit are adults, age 20 or over, and three-fifths (59%) are women, many of whom are trying to raise the family on $5.15. Almost half (46%) worked full-time. And the average minimum-wage worker is estimated to bring home <u>half</u> of their household's earnings.

- **Valuing Work: Restoring the Value of the Minimum Wage.** President Clinton's proposal to increase the minimum wage by $1 -- combined with the previous 90-cent increase -- simply restores the real value of the minimum wage to what it was in 1982. During President Reagan's eight years in office, the real value of the minimum wage *fell* more than 25 percent. This increase -- in percentage terms -- is in line with previous ones that helped low-wage workers without adversely affecting the economy: both this proposal and the last one increase the minimum wage by about 20 percent.

- **Helping Ensure Parents Can Raise Their Children Out of Poverty.** In 1993, President Clinton expanded the Earned Income Tax Credit (EITC), helping to lift hundreds of thousands of working families out of poverty. Today, with the previous minimum wage increase and the expanded EITC, parents who work full-time do not have to bring up their children in poverty. Between 1993 and 1997, the income of families with two children and one minimum wage earner who worked full-time rose by $2,761 because of these policies. This increase will help ensure that – as costs continue to rise -- parents who work hard and play by the rules can bring up their children out of poverty.

- **The Impact from Last Minimum Wage Increase Is Clear: 10 Million Workers Got A Raise and There Is No Evidence Jobs Were Lost.** The last minimum wage increase provided a pay raise to 10 million workers, and since the President signed the minimum wage increase into law in August 1996, the economy has created new jobs at an historically high pace of over 240,000 per month; and the unemployment rate has fallen to 4.1 percent -- its lowest level in nearly 30 years. For teenagers, African-Americans, and women, unemployment is down and employment are up.

- **Empirical Evidence That Shows Moderate Minimum Wage Increases Do Not Cost Jobs.** More than two dozen empirical studies have found that moderate increases in the minimum wage do not have a significant effects on employment. These studies include state-specific research in California, Texas, and New Jersey that show that state minimum wage increases did not result in any job loss.

NEW EVIDENCE ON THE MINIMUM WAGE

Benefits of minimum wage increase

- **Poverty rates have fallen.** On September 30 the Census Bureau released statistics showing that poverty is down and income is up. The poverty rate in 1998 fell to 12.7 percent – the lowest rate in two decades. Hispanic poverty was the lowest in two decades and African-American poverty was the lowest on record.

- **Incomes are up for those on the bottom.** In the 1980s, inflation eroded the value of the minimum wage, incomes and wages at the bottom fell. The latest Census data released on September 30 show that incomes for the bottom quintile rose 2.4 percent after adjusting for inflation.

- **Wage growth has been strong for those at the bottom.** According to the Economic Policy Institute's most recent Quarterly Wage and Employment Series report, over the last year real wages for the bottom tenth of workers rose 1.3 percent – virtually the same as the 1.4 percent increase enjoyed by the top tenth of workers. According to their data, the real wage increase for workers in the bottom tenth was 10.0 percent between 1996 and the first half of 1999 – even better than the 7.6 percent real wage growth for the typical worker.

- **A new study by the Economic Policy Institute finds that the minimum wage increase is especially beneficial to women.** They find that 58 percent of the direct beneficiaries of an increase will be women; and of these 75 percent are adults and 33 percent of them will be women with children under age 18. ("The Minimum Wage Increase: a Working Woman's Issue" by Jared Bernstein, Heidi Hartmann, and John Schmitt. Available at www.epinet.org.)

- **Minimum wage contributes to welfare roll reductions.** The welfare rolls have fallen by 39 percent since the minimum wage increased in 1996. A study by the Council of Economic Advisers released in August, "The Effects of Welfare Policy and the Economic Expansion on Welfare Caseloads: an Update," found that the increase in the minimum wage contributed 10 to 16 percent of this reduction.

New evidence against those who worry that minimum wage increases hurt the economy

- **The minimum wage does not hurt training.** Contrary to some claims, a new National Bureau of Economic Research study by MIT economists Daron Acemoglu and Jorn-Steffen Pischke found that raising the minimum wage did not have a negative impact on training in the U.S. labor market. In fact, they argued that a higher minimum wage provides employers with an additional incentive to provide on-the-job training for their workers to ensure that their increased productivity matches their higher wages. ("Minimum Wages and On-the-job-training." *National Bureau of Economic Research Working Paper No. 7184*, June 1999.

- **Yet more evidence that moderate minimum wage increases do not hurt jobs.** Card-Krueger study from June 1999 showing relative effects of minimum wage increases in New

Jersey and Eastern Pennsylvania. They find that, if anything, a higher minimum wage increased employment by increasing the labor supply of workers.

- **Minimum wage increase does not cause inflation.** In the year before the minimum wage increase, the underlying (core) rate of inflation increased 2.6 percent. So far in the year through September, it only increased at a 1.9 percent annual rate – that's the lowest rate since 1965. Another measure of inflation, the GDP price index, rose only 1.2 percent in 1998 – the lowest rate since 1961 (the year before the minimum wage increase in 1996, it rose 1.8 percent).

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FOREIGN OPERATIONS, EXPORT FINANCING, AND RELATED PROGRAMS APPROPRIATIONS ACT, 2000--VETO MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 106-145) (House of Representatives - October 18, 1999)

[Page: H10142] *GPO's PDF*

The SPEAKER pro tempore laid before the House the following veto message from the President of the United States:

To the House of Representatives:

I am returning herewith without my approval H.R. 2606, the 'Foreign Operations, Export Financing, and Related Programs Appropriations Act, 2000.'

The central lesson we have learned in this century is that we cannot protect American interests at home without active engagement abroad. Common sense tells us, and hard experience has confirmed, that we must lead in the world, working with other nations to defuse crises, repel dangers, promote more open economic and political systems, and strengthen the rule of law. These have been the guiding principles of American foreign policy for generations. They have served the American people well, and greatly helped to advance the cause of peace and freedom around the world.

This bill rejects all of those principles. It puts at risk America's 50-year tradition of leadership for a safer, more prosperous and democratic world. It is an abandonment of hope in our Nation's capacity to shape that kind of world. It implies that we are too small and insecure to meet our share of international responsibilities, too shortsighted to see that doing so is in our national interest. It is another sign of a new isolationism that would have America bury its head in the sand at the height of our power and prosperity.

In the short term, H.R. 2606 fails to address critical national security needs. It suggests we can afford to underfund our efforts to keep deadly weapons from falling into dangerous hands and walk away without peril from our essential work toward peace in places of conflict. Just as seriously, it fails to address America's long-term interests. It reduces assistance to nations struggling to build democratic societies and open markets and backs away from our commitment to help people trapped in poverty to stand on their feet. This, too, threatens our security because future threats will come from regions and nations where instability and misery prevail and future opportunities will come from nations on the road to freedom and growth.

By denying America a decent investment in diplomacy, this bill suggests we should meet threats to our security with our military might alone. That is a dangerous proposition. For if we underfund our diplomacy, we will end up overusing our military. Problems we might have been able to resolve peacefully will turn into crises we can only resolve at a cost of life and treasure. Shortchanging our arsenal of peace is as risky as shortchanging our arsenal of war.

The overall funding provided by H.R. 2606 is inadequate. It is about half the amount available in real terms to President Reagan in 1985, and it is 14 percent below the level that I requested. I proposed to fund this higher level within the budget limits and without spending any of the Social Security surplus. The specific shortfalls in the current bill are numerous and unacceptable.

For example, it is shocking that the Congress has failed to fulfill our obligations to Israel and its neighbors as they take risks and make difficult decisions to advance the Middle East peace process. My Administration, like all its predecessors, has fought hard to promote peace in the Middle East. This bill would provide neither the $800 million requested this year as a supplemental appropriation nor the $500 million requested in FY 2000 funding to support the Wye River Agreement. Just when Prime Minister Barak has helped give the peace process a jump start, this sends the worst possible message to Israel, Jordan, and the Palestinians about America's commitment to the peace process. We should instead seize this opportunity to support them.

Additional resources are required to respond to the costs of building peace in Kosovo and the rest of the Balkans, and I intend to work with the Congress to provide needed assistance. Other life-saving peace efforts, such as those in Sierra Leone and East Timor, are imperiled by the bill's inadequate funding of the voluntary peacekeeping account.

Foreign Ops New bill H.R. 3196					11/4/99 316-100					
Foreign Ops S. 1234[8] H.R. 2606	7/14/99 (vv)		7/20/99 (vv) H.Rept. 106-254	6/17/99 (28-0) S.Rept. 106-81	8/3/99 (385-35)	8/4/99 (uc)[8]	H.Rept. 106-339 9/27/99	10/5/99 (214-211)	10/6/99 (51-49)	Presidential veto 10/18/99[16]
Interior S. 1292 H.R. 2466[12]	6/29/99 (vv)	6/22/99 (vv)	7/1/99 (vv) H.Rept. 106-222	6/24/99 (vv) S.Rept. 106-99	7/15/99 (377-47)	9/23/99 (89-10) 12	H.Rept. 106-406 10/20/99	10/21/99 (225-200)	10/21/99 (uc)	
Labor, HHS, Ed S. 1650 H.R. 3037	9/23/99 (8-6)	9/27/99	9/30/99 (32-26) H.Rept. 106-370	9/28/99 (19-0) S.Rept. 106-166		10/7/99 (73-25)	H.Rept. 106-419[18] (10/27/99)	Labor/HHS/Ed Appropriations were included in the D.C. Appropriations conference report (H. Rept. 106-419).		Presidential veto (included in veto of HR 3064) 11/3/99
Legis Branch HR 1905 S 1206[1]	5/12/99 (vv)		5/20/99 (vv) H.Rept. 106-156	6-10-99 (28-0) S.Rept. 106-75	6/10/99 (214-197)	6/16/99 (95-4)[1]	H.Rept. 106-290 8/4/99	8/5/99 (367-49)	8/5/99 (uc)	P.L. 106-57 9/29/99
Military Const. S 1205[3] H.R. 2465	6/28/99 (vv)		7/1/99 (vv) H.Rept. 106-221	6/10/99 (28-0) S.Rept. 106-74	7/13/99 (418-4)	7/14/99 (uc)[3]	H.Rept. 106-266 7/27/99	7/29/99 (412-8)	8/3/99 (uc)	P.L. 106-52 8/17/99
Transportation S 1143 H.R. 2084	5/27/99 (vv)	5/25/99 (vv)	6/8/99 (vv) H.Rept. 106-180	5/27/99 (27-1) S.Rept. 106-55	6/23/99 (429-3)	9/16/99 (95-0)[11]	H.Rept. 106-355 9/30/99	10/1/99 (304-91)	10/4/99 (88-3)	P.L. 106-69 10/9/99
Treasury S. 1282[2] H.R. 2490	5/14/99 (vv)	6/22/99[9]	7/13/99 (vv) H.Rept. 106-231	6/24/99 (28-0) S.Rept. 106-87	7/15/99 (210-209)	7/19/99 (uc)[2]	H.Rept. 106-319 9/14/99	9/15/99 (292-126)	9/16/99 (54-38)	P.L. 106-58 9/29/99
VA/HUD H.R. 2684 S. 1596[13]	7/26/99 (vv)	9/15/99 (vv)	7/30/99 (vv) H.Rept. 106-286	9/16/99 (uc) S.Rept. 106-161	9/9/99 (235-187)	9/24/99 (vv)[13]	H.Rept. 106-379 (10/13/99)	10/14/99 (406-18)	10/15/99 (93-5)	P.L. 106-74 10/20/99

Roll call votes are given within parentheses; vv = voice vote; uc = unanimous consent.

FOOTNOTES

[1] Senate passed H.R. 1905, making appropriations for the Legislative Branch for the fiscal year ending September 30, 2000, after striking certain provisions of the House bill and inserting in lieu thereof certain provisions of S. 1206, Senate companion measure, and after agreeing to a number of amendments. See the Congressional Record, June 16, 1999, pages S7117 - S7120.

[2] On July 1, Senate passed its own Treasury appropriations bill, S. 1282. On July 19, Senate vitiated its previous passage, and passed H.R. 2490, after striking all after the Enacting Clause and substituting the language of S. 1282 amended. H.R. 2490 passed Senate in lieu of S. 1282 with an amendment by Unanimous Consent. See the Congressional Record, July 19, 1999, page S8811.

[3] On June 16, the Senate passed its own Military Construction Appropriations bill, S. 1205, by a vote of 97-2. On July 14, Senate vitiated its previous passage, and passed H.R. H.R. 2465 by unanimous consent, after striking all after the Enacting Clause, and substituting S. 1205 as an amendment. See Congressional Record, July 14, 1999, page S8504.

[4] On June 8, the Senate passed its own Defense Appropriations bill, S.1122, by a vote of (93-4). On July 28, Senate vitiated its previous passage, and passed H.R. 2561 by unanimous consent, after striking all after the Enacting Clause, and substituting S.

Current Status of FY2000 Appropriations Bills

Last update: 11/05/99 13:47:26

Bill No.	Subcommittee Approval		Committee Approval		House Passage	Senate Passage	Conf. Report	Conf. Report Approval		Public Law
	House	Senate	House	Senate				House	Senate	
4th Continuing Resolution H.J.Res. 75 Extends funding thru 11/10/99					11/4/99 (417-6)	11/4/99 (uc)				
3rd Continuing Resolution H.J.Res. 73 Extends funding thru 11/5/99					10/28/99 (424-2)	10/28/99 (vv)				P.L. 106-85 10/29/99
2nd Continuing Resolution H.J.Res. 71 Extends funding thru 10/29/99					10/19/99 (421-2)	10/19/99 (vv)				P.L. 106-75 10/21/99
Continuing Resolution H.J.Res. 68 Extends funding thru 10/21/99			9/27/99		9/28/99 (421-2)	9/28/99 (98-1)				P.L. 106-62 9/30/99
Agriculture HR 1906 S. 1233 [7]	5/13/99 (vv)	6/15/99 (uc)	5/19/99 (vv) H.Rept. 106-157	6/17/99 (28-0) S.Rept. 106-80	6/8/99 (246-183)	8/4/99 (vv)[7]	H.Rept. 106-354 9/30/99	10/1/99 (240-175)	10/13/99 (74-26)	P.L. 106-78 10/22/99
Commerce, Justice, State H.R. 2670 S. 1217 [10]	7/22/99 (vv)	6/9/99 (vv)	7/30/99 (vv) H.Rept. 106-283	6/10/99 (28-0) S.Rept. 106-76	8/5/99 (217-210)	9/8/99 [10] (vv)	H.Rept. 106-398 (10/19/99)	10/20/99 (215-213)	10/20/99 (uc)	Presidential veto[17] 10/25/99
Defense S. 1122 [4] H.R. 2561	7/12/99 (uc)	5/24/99 (vv)	7/16/99 (vv) H.Rept. 106-244	5/25/99 (24-3) S.Rept. 106-53	7/22/99 (379-45)	7/28/99 (uc)[4]	H.Rept. 106-371 10/8/99	10/13/99 (372-55)	10/14/99 (87-11)	P.L. 106-79 10/25/99
District Second New bill H.R. 3194					11/3/99 (216-210)	11/3/99 (uc)				
District New bill H.R. 3064			10/13/99		10/14/99 (211-205)	10/15/99 (uc)[15]	H.Rept. 106-419[18] (10/27/99)	10/28/99 (218-211)	11/2/99 (49-48)	Presidential veto[19] 11/3/99
District S. 1283 [6] H.R. 2587	7/14/99 (uc)		7/20/99 (vv) H.Rept. 106-249	6/24/99 (28-0) S.Rept. 106-88	7/29/99 (333-92)	8/2/99 (uc)[6]	H.Rept. 106-299 8/5/99	9/9/99 (208-206)	9/16/99 (52-39)	Presidential veto[14] 9/28/99
Energy and Water S. 1186 [5] H.R. 2605	7/15/99 (vv)	5/25/99 (vv)	7/20/99 (vv) H.Rept. 106-253	5/27/99 (27-1) S.Rept. 106-58	7/27/99 (420-8)	7/28/99 (uc)[5]	H.Rept. 106-336 9/27/99	9/27/99 (327-87)	9/28/99 (96-3)	P.L. 106-60 9/29/99

1122 as an amendment. See Congressional Record, July 28, 1999, page S9640.

[5] On June 16, the Senate passed its own Energy and Water Appropriations bill, S.1186, by a vote of (97-2). On July 28, Senate vitiated its previous passage, and passed H.R. 2605 by unanimous consent, after striking all after the Enacting Clause, and substituting S. 1186 as an amendment. See Congressional Record, July 28, 1999, page S9650.

[6] On July 1, the Senate passed its own District of Columbia Appropriations bill by voice vote. On August 2, the Senate vitiated its previous passage, and passed H.R. 2587 by unanimous consent, after striking all after the Enacting Clause, and substituting S. 1283 as an amendment. See Congressional Record, August 2, 1999, page S9965

[7] On August 4, 1999, Senate passed its Agriculture appropriations bill, S. 1233, by voice vote. On August 4, Senate vitiated previous passage of S. 1233, and incorporated this measure in H.R. 1906 as an amendment. Senate passed companion measure H.R. 1906 in lieu of this measure by voice vote. See Congressional Record, August 4, 1999, page S10214.

[8] On August 4, the Senate vitiated previous passage of its foreign operations appropriations bill (S.1234, June 30, 1999, 97-2, roll call #192), and passed H.R. 2606 by unanimous consent, after striking all after the enacting clause and substituting the language of S. 1234, passing it by unanimous consent (uc). See the Congressional Record, August 5, 1999, page S10214

[9] The subcommittee was polled and the measure was sent to the full Appropriations Committee.

[10] On September 8, the Senate vitiated previous passage of its Commerce/ Justice/State appropriations bill (S. 1217, July 22, 1999, voice vote), and passed H.R. 2670, after striking all after the enacting clause and inserting in lieu thereof the text of S. 1217. See the Congressional Record, September 8, 1999, page S10540.

[11] On 9/14/99, by unanimous consent, the Senate struck all of H.R. 2084 after the enacting clause, and inserted Senate amendment No. 1624. See the Congressional Record, September 14, 1999, page S10822 for the unanimous consent, and pages S10856-66 for the text of the Amendment No. 1624.

[12] On 9/23/99, the Senate passed H.R. 2566, as amended. See Congressional Record pages S11277-S11347.

[13] On 9/22/99, Senate struck certain provisions of H.R. 2684 and inserted in lieu thereof the text of S.1596. See Congressional Record, September 22, 1999, page S11201. On 9/24/99, Senate passed H.R. 2684, as amended. See Congressional Record, September 24, 99, page S11419.

[14] On 9/28/99, President Clinton vetoed the District of Columbia appropriations bill. He explained his reasons in H.Doc. 106-135, Congressional Record, pages H8941-2.

[15] As amended to include Amendment 2302, in the nature of a substitute. See Congressional Record, S12729

[16] For veto message, see 10/18/99 Congressional Record, pages H10142-43. (H. Doc. 106-145).

[17] For veto message, see 10/26/99 Congressional Record, pages H10835-36. (H. Doc. 106-148).

[18] Conference Report includes both revised District of Columbia and Labor/HHS Appropriations, and 0.97 percent across-the-board rescissions (spending cuts). See the Congressional Record, 10/27/99, pages H10933-11065.

[19] See the Veto Message in the Congressional Record, 11/3/99, pages H11441-43. (H.Doc. 106-154.)

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DISTRICT OF COLUMBIA APPROPRIATIONS ACT, 2000--VETO MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 106-135) (House of Representatives - September 28, 1999)

[Page: H8941] *GPO's PDF*

The SPEAKER pro tempore laid before the House the following veto message from the President of the United States; which was read and, without objection, referred to the Committee on Appropriations and ordered to be printed:

To the House of Representatives:

I am returning herewith without my approval, H.R. 2587, the 'District of Columbia Appropriations Act, 2000.' Although the bill provides important funding for the District of Columbia, I am vetoing this bill because it includes a number of highly objectionable provisions that are unwarranted intrusions into local citizens' decisions about local matters.

I commend the Congress for developing a bill that includes requested funding for the District of Columbia. The bill includes essential funding for District Courts and Corrections and the D.C. Offender Supervision Agency and goes a long way toward providing requested funds for a new tuition assistance program for District of Columbia residents. I appreciate the additional funding included in the bill to promote the adoption of children in the District's foster care system, to support the Children's National Medical Center, to assist the Metropolitan Police Department in eliminating open-air drug trafficking in the District, and for drug testing and treatment, among other programs.

However, I am disappointed that the Congress has added to the bill a number of highly objectionable provisions that would interfere with local decisions about local matters. Were it not for these provisions, I would sign the bill into law. Many of the Members who voted for this legislation represent States and localities that do not impose similar restrictions on their own citizens. I urge the Congress to remove the following provisions expeditiously to prevent the interruption of important funding for the District of Columbia:

--*Voting Representation.* H.R. 2587 would prohibit not only the use of Federal, but also District funds to provide assistance for petition drives or civil actions that seek to obtain voting representation in the Congress for residents of the District of Columbia.

--*Limit on Access to Representation in Special Education Cases.* The bill would cap the award of plaintiffs' attorneys' fees in cases brought by parents of District schoolchildren against the District of Columbia Public Schools under the Individuals with Disabilities Education Act (IDEA). In the long run, this provision would likely limit the access of the District's poor families to quality legal representation, thus impairing their due process protections provided by the IDEA.

--*Abortion.* The bill would prohibit the use of not only Federal, but also District funds to pay for abortions except in those cases where the life of the mother is endangered or in situations involving rape or incest.

--*Domestic Partners Act.* The bill would prohibit the use of not only Federal, but also District funds to implement or enforce the Health Care Benefits Expansion Act of 1992.

--*Needle Exchange Programs.* The bill contains a ban that would seriously disrupt current AIDS/HIV prevention efforts by prohibiting the use of Federal and local funds for needle exchange programs. H.R. 2587 denies not only Federal, but also District funding to any public or private agency, including providers of HIV/AIDS-related services, in the District of Columbia that uses the public or private agency's own funds for needle exchange programs, undermining the principle of home rule in the District.

--*Controlled Substances.* The bill would prohibit the District from legislating with respect to certain controlled substances, in a manner that all States are free to do.

--*Restriction on City Council Salaries.* The bill would limit the amount of salary that can be paid to members of the District of Columbia Council.

I urge the Congress to send me a bill that maintains the important funding for the District provided in this bill and that eliminates these highly objectionable provisions as well as other provisions that undermine the ability of residents of the District of Columbia to make decisions about local matters.

William J. Clinton.

The White House, September 28, 1999.

The SPEAKER pro tempore. The objections of the President will be spread at large upon the Journal, and the message and bill will be printed as a House document.

(Mr. ISTOOK asked and was given permission to revise and extend his remarks.)

[Page: H8942] ***GPO's PDF***

Mr. ISTOOK. Madam Speaker, President Clinton has just surrendered in America's war against drugs. I'm deeply disturbed by this veto, and every parent, teacher and police officer should be, too.

His veto throws away all the good things this bill does: help D.C. kids go to college, get foster kids into permanent homes, clean up the foul Anacostia River, crack down on drug offenders, and reduce the size of D.C.'s bloated government.

And for what?

I'm appalled that the President of the United States would throw away all these good things just to support legalizing marijuana.

This is about legalizing drugs in the nation's capital, and using that as a stepping-stone for the rest of the country. Nobody should be fooled by the pretense that this is a medical issue. That's a smoke screen. Anyone who reads D.C.'s proposed new law knows:

DISTRICT OF COLUMBIA APPROPRIATIONS ACT, 2000--VETO MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 106-154) (House of Representatives - November 03, 1999)

[Page: H11441] GPO's PDF

The Speaker pro tempore laid before the House the following veto message from the President of the United States:

To the House of Representatives:

I am returning herewith without my approval H.R. 3064, the FY 2000 District of Columbia and Departments of Labor, Health and Human Services, and Education, and Related Agencies appropriations bill.

I am vetoing H.R. 3064 because the bill, including the offsets section, is deeply flawed. It includes a misguided 0.97 percent across-the-board reduction that will hurt everything from national defense to education and environmental programs. The legislation also contains crippling cuts in key education, labor, and health priorities and undermines our capacity to manage these programs effectively. The enrolled bill delays the availability of $10.9 billion for the National Institutes of Health, the Centers for Disease Control, and other important health and social services programs, resulting in delays in important medical research and health services to low-income Americans. The bill is clearly unacceptable. I have submitted a budget that would fund these priorities without spending the Social Security surplus, and I am committed to working with the Congress to identify acceptable offsets for additional spending for programs that are important to all Americans.

The bill also fails to fulfill the bipartisan commitment to raise student achievement by authorizing and financing class size reduction. It does not guarantee any continued funding for the 29,000 teachers hired with FY 1999 funds, or the additional 8,000 teachers to be hired under my FY 2000 proposal. Moreover, the bill language turns the program into a virtual block grant that could be spent on vouchers and other unspecified activities. In addition, the bill fails to fund my proposed investments in teacher quality by not funding Troops to Teachers ($18 million) and by cutting $35 million from my request for Teacher Quality Enhancement Grants. These programs would bring more highly qualified teachers into the schools, especially in high-poverty, high-need school districts.

The bill cuts $189 million from my request for Title I Education for the Disadvantaged, resulting in 300,000 fewer children in low-income communities receiving needed services. The bill also fails to improve accountability or help States turn around the lowest-performing schools because it does not include my proposal to set aside 2.5 percent for these purposes. Additionally, the bill provides only $300 million for 21st Century Community Learning Centers, only half my $600 million request. At this level, the conference report would deny afterschool services to more than 400,000 students.

The bill provides only $180 million for GEAR UP, $60 million below my request, to help disadvantaged students prepare for college beginning in the seventh grade. This level would serve nearly 131,000 fewer low-income students. In addition, the bill does not adequately fund my Hispanic Education Agenda. It provides no funds for the Adult Education English as a Second Language/Civics Initiative to help limited English proficient adults learn English and gain life skills necessary for successful citizenship and civic participation. The bill underfunds programs designed to improve educational outcomes for Hispanic and other minority students, including Bilingual Education, the High School Equivalency Program (HEP), the College Assistance Migrant Program (CAMP), and the Strengthening Historically Black Colleges and Universities program.

The bill underfunds Education Technology programs, including distance learning and community technology centers. In particular, the bill provides only $10 million to community based technology centers, $55 million below my request. My request would provide access to technology in 300 additional low-income communities. The bill provides $75 million for education research, $34 million less than my request, and includes no funding for the Department of Education's share

of large-scale joint research with the National Science Foundation and the National Institutes of Health on early learning in reading and mathematics, teacher preparation, and technology applications.

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DEPARTMENTS OF COMMERCE, JUSTICE, AND STATE, THE JUDICIARY, AND RELATED AGENCIES APPROPRIATIONS ACT, 2000--VETO MESSAGE FROM THE PRESIDENT OF THE UNITED STATES (H. DOC. NO. 106-148) (House of Representatives - October 26, 1999)

[Page: H10835] *GPO's PDF*

The SPEAKER pro tempore (Mr. **Tancredo**) laid before the House the following veto message from the President of the United States:

To the House of Representatives:

I am returning herewith without my approval H.R. 2670, the 'Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriations Act, 2000.'

This legislation should embody the continuing commitment of this Administration on a broad range of fundamental principles. First and foremost amongst these tenets is the notion that the United States of America should be the safest country in the world. Our families must feel secure in their neighborhoods. Since 1993, the progress realized toward that end has been impressive and must not be impeded.

Moreover, America must continue to lead the community of nations toward a safer, more prosperous and democratic world. This guidepost has for generations advanced the cause of peace and freedom internationally, and an erosion of this policy is untenable and unacceptable at this critical moment in history.

This great Nation serves as example to the world of a just and humane society. We must continue to lead by our example and maintain a system that vigorously protects and rigorously respects the civil rights of individuals, the dignity of every citizen, and the basic justice and fairness afforded to every American.

Unfortunately, this bill fails to uphold these principles.

Specifically, and most notably, the bill fails to adequately fund the proposed 21st Century Policing Initiative, which builds on the success of the Community Oriented Policing Services (COPS) program. I requested $1.275 billion in new appropriations, and this bill provides only $325 million. To date, the COPS program has funded more than 100,000 additional police officers for our streets. The 21st Century Policing initiative would place an additional 30,000 to 50,000 police officers on the street over the next 5 years and would expand the concept of community policing to include community prosecution, law enforcement technology assistance, and crime prevention. Funding the COPS program required a bipartisan commitment, and it paid off; recently released statistics show that we have the lowest murder rate in 31 years and the longest continuous decline in crime on record. I strongly believe we must forge a similar commitment to support the COPS program's logical successor.

The bill would also threaten America's ability to lead in the world by failing to meet our obligation to pay our dues and our debts to the United Nations. This is a problem I have been working with the Congress to resolve for several years, but this bill fails to provide a solution.

Though the bill does include adequate funds to support our annual contribution to the United Nations regular budget, it conditions the funding on separate authorizing legislation, continuing an unacceptable linkage to an unrelated issue. For this reason, because of additional provisions, and because the bill is inconsistent with provisions agreed to by the authorizing committees, the bill would still cause the United States to lose its vote in the United Nations. It would undercut efforts that matter to America in which the U.N. plays an important role, from our fight against terrorism and proliferation, to our efforts to promote human rights, the well-being of children, and the health of our environment. It would undermine our ability to shape the U.N.'s agenda in all these areas and to press for reforms that will make its work more effective. All this is unacceptable. Great nations meet their responsibilities, and I am determined that we will meet ours.

In addition, the bill includes only $200 million for International Peacekeeping Activities, a reduction of almost 60 percent from my request. The requested level of $485 million is necessary to meet anticipated peacekeeping requirements in East Timor, Sierra Leone, the Democratic Republic of the Congo, Ethiopia, and Eritrea. In each of these places, the United States has worked with allies and friends to end conflicts that have claimed countless innocent lives and thrown

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The Honorable Bill Archer
Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20510

Dear Mr. Chairman:

If H.R. 3081 were presented to the President in its current form, we and other senior advisers to the President would recommend that he veto it, for the following reasons:

The President proposed a $1 increase in the minimum wage over two years, effective January 1, 2000. H.R. 3081 would provide a $1 increase over three years, effective April 1, 2000. Compared with the President's proposal, this would cost a full-time, year-round minimum wage ~~workers~~ worker approximately [Labor] $1,500 over three years.

H.R. 3081 would repeal overtime pay protections for 1.5 million American workers. For example, the bill would create a new exemption from overtime requirements for inside-sales people who earn as little as $22,000 per year. In addition, funeral homes would no longer be required to pay overtime to funeral directors or embalmers who work more than 40 hours per week; the only apparent justification for this provision is to cut wages in the funeral home industry. H.R. 3081 would also deny overtime pay to some workers in computer-related occupations earning salaries as low as $13,000 per year. The proposed change in rules for calculating overtime pay in H.R. 3081 is similarly misguided and will have unintended results. [Labor]

H.R. 3081 does not contain any revenue offsets for its tax initiatives. The President has stated repeatedly that, before we consider using projected surpluses to provide a tax cut, we must put first things first and address the long-term solvency of Social Security and Medicare.

The bill also would not meet the ~~existing [OMB]~~ pay-as-you-go requirements of the Budget Act, which have helped provide the discipline necessary to bring us from an era of large and growing budget deficits to the potential for substantial surpluses. The bill would therefore require an automatic sequester of mandatory programs, including Medicare.

We also have specific concerns with several tax initiatives in H.R. 3081, many of which have been expressed to you previously. For example, the estate tax relief is expensive and provides no benefit to average working Americans. Moreover, the relief is poorly targeted to its purported purpose of providing relief for small business owners and family farms. Rather, the three major provisions – converting the unified credit to an exemption, repeal of the surtax, and reduction in top marginal rates – would benefit only the wealthiest estates.

Also, we have serious concerns regarding the pension provisions in the bill that raise the maximum retirement plan contribution [per Treasury/PBGC] limits ~~for tax-qualified plans [per Treasury]~~ and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers. As currently drafted, these [per Labor] ~~These~~ provisions are regressive, would not significantly increase plan coverage, and could lead to reductions in retirement benefits for moderate- and lower-income workers. It also contains a provision that would limit the Department of Labor's ability to represent employees in certain benefit cases and [per OMB] undermine the Secretary's ~~of Labor's [per OMB]~~ ability to enforce ERISA.

The delicate balance between incentives to create pension plans and requirements to ensure broad access and fairness is one the that is not easily reached, yet remains within our grasp. [per Labor] The Administration would like to work with Congress to develop initiatives that would truly [OMB] increase retirement savings for moderate and lower-income workers.

We appreciate your consideration of the Administration's concerns. We look forward to working with you and other members of Congress in the coming months to address the solvency of Social Security and Medicare, to meet critical national priorities, to provide a living wage to those at the bottom of the economic spectrum, and to provide fiscally responsible tax relief targeted at the needs of working families.

Sincerely yours,

Lawrence H. Summers　　　　Alexis Herman

Talking Points on Senate Minimum Wage Bill

- Today the Senate passed legislation that would raise the minimum wage by $1.00 over three years from $5.15 to $6.15.
  - It would start with a 35 cent increase in March 2000.
    - The proposal also includes a variety of tax cuts ostensibly aimed at small businesses, costing $18.4 billion over five years and $75.3 billion over ten years. Most of this cost would come from the projected non-Social Security surplus. Key features include:
  - Moving up to 2000 the start of the existing provision to allow 100 percent deductibility of health insurance premiums for the self-employed
  - Above-the-line tax deduction for health insurance for employees who pay up to one-half of the premium (phased in over seven eight years.
  - Increasing contribution limits to 401(k) and other retirement savings plans
  - Increasing the business meal deduction from 50% to 80%

- The House Republicans have a similar plan that is being discussed on the floor today.
- The Senate tabeled a proposal by Senate Democrat that would raise the minimum wage over two years and contained some targeted tax relief, offset by a reinstatement of the superfund taxes and other offsets.

- Objections to Senate plan include
  - Unlike the Democratic proposal, the Republican plan would raise the minimum wage over a 3 year period. Minimum wage workers would lose $1,500 in income by delaying the implementation of the wage increase (relative to Democrat's plan).
  - Many of the tax breaks that are offered benefit the very wealthy and not targeting the needs of low-income Americans (e.g., pension limits).
  - Tax deduction for health insurance provides small benefit for workers with 15% tax rate
  - The tax cuts in the Republican legislation are not consistent with the long-range goals of the administration: They do not use the surplus to lower debt and extend solvency of Social Security and Medicare. It doesn't make sense to squander the hard fought victory over budget deficits on tax cuts for the well off.

- Important to have a minimum wage increase:
  - Relative to average wages, the minimum wage decreased substantially through the 1980's and the increases in the 1990s have not returned the minimum wage to previous levels

- 11.4 million Americans would benefit from an $1.00 increase in the minimum wage.
    - 40.6 percent are men and 59.4 percent are women
    - 15.3 percent are black and 18.1 percent are Hispanic
    - 70.2 percent are age 20 or over

- The evidence on the effects of the minimum wage on employment is mixed. Even with the full $1 rise over two years, the minimum wage will still be much lower than in the 1960s and 1970s relative to average wages. Moreover, with today's strong economy, the evidence is that there are labor shortages, not shortfalls.

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Chairman, Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20510

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The bill also would not meet the ~~existing [OMB]~~ pay-as-you-go requirements of the Budget Act, which have helped provide the discipline necessary to bring us from an era of large and growing budget deficits to the potential for substantial surpluses. The bill would therefore require an automatic sequester of mandatory programs, including Medicare.

We also have specific concerns with several tax initiatives in H.R. 3081, many of which have been expressed to you previously. For example, the estate tax relief is expensive and provides no benefit to average working Americans. Moreover, the relief is poorly targeted to its purported purpose of providing relief for small business owners and family farms. Rather, the three major provisions – converting the unified credit to an exemption, repeal of the surtax, and reduction in top marginal rates – would benefit only the wealthiest estates.

Also, we have serious concerns regarding the pension provisions in the bill that raise the maximum retirement plan contribution [per Treasury/PBGC] limits ~~for tax-qualified plans [per Treasury]~~ and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers. As currently drafted, these [per Labor] ~~These~~ provisions are regressive, would not significantly increase plan coverage, and could lead to reductions in retirement benefits for moderate- and lower-income workers. It also contains a provision that would limit the Department of Labor's ability to represent employees in certain benefit cases and [per OMB] undermine the Secretary's ~~of Labor's [per OMB]~~ ability to enforce ERISA.

The delicate balance between incentives to create pension plans and requirements to ensure broad access and fairness is one the that is not easily reached, yet remains within our grasp. [per Labor] The Administration would like to work with Congress to develop initiatives that would truly [OMB] increase retirement savings for moderate and lower-income workers.

We appreciate your consideration of the Administration's concerns. We look forward to working with you and other members of Congress in the coming months to address the solvency of Social Security and Medicare, to meet critical national priorities, to provide a living wage to those at the bottom of the economic spectrum, and to provide fiscally responsible tax relief targeted at the needs of working families.

Sincerely yours,

Lawrence H. Summers Alexis Herman

CENTER ON BUDGET AND POLICY PRIORITIES

November 8, 1999

Nickles Minimum Wage Bill Includes Costly Tax Cuts That Could Harm Lower-Wage Workers

by Iris J. Lav

Legislation Senator Don Nickles has put forth on behalf of the Republican leadership to increase the minimum wage by one dollar over three years, which is expected to be taken up on the floor this week, includes a set of tax breaks that not only would largely benefit higher-income individuals but that also are likely to lead to *reductions* in employer-provided pension and health benefits currently available to lower-wage workers.

- The bill features a series of changes in tax laws related to pensions that would make pension tax breaks considerably more lucrative for highly paid executives and other highly compensated individuals. Some of these pension provisions would allow smaller employers to retain or increase coverage for the owners and higher-paid employees while reducing coverage for more moderately-paid workers.

- A costly new "above-the-line" deduction for health insurance premiums paid by individuals who purchase their own insurance — or whose employers subsidize less than 50 percent of the cost of health insurance premiums — also is included. This provision is likely to do little to make health insurance affordable for most of the nation's uninsured, 93 percent of whom either owe no federal income taxes or are in the 15 percent bracket and thus would at most receive a subsidy of 15 cents for every dollar spent on health insurance. Moreover, because the deduction would provide a far deeper percentage subsidy for purchasing health insurance to higher-paid business owners and executives than to lower-wage earners, it could even encourage small business owners to drop group coverage (or not to institute it in the first place) and to rely on the deduction for their own coverage. To the extent this occurs, the ranks of the uninsured among lower-wage workers could increase.

- The net cost of the tax provisions in the Nickles minimum wage bill would be $18 billion over the next five years, and $76 billion over ten years. By the tenth year, the annual cost would be more than $16 billion.

- This cost is not paid for; it is simply assumed to be covered by the non-Social Security surplus. That surplus, however, has yet to materialize; projections of a sizeable non-Social Security surplus rest on the assumption that Congress will make substantial cuts in discretionary spending, an assumption that action on the current appropriations bills belies. Whether a non-Social Security surplus of any magnitude will materialize remains to be seen. Furthermore, this bill would make its inadequately designed and targeted tax cuts the first claim on such a surplus, ahead of needs in Social Security, Medicare, other emerging needs, and paying down more of the debt.

The argument usually advanced for including tax measures as an accompaniment to a minimum wage increase is that small businesses need to be compensated for the increased wages they would have to pay under a higher minimum wage. This argument is not well-founded; the evidence does not indicate that modest minimum wage increases have significantly negative effects on small businesses. For example, recent research that examined whether minimum wage increases contribute to the failure rate of businesses found "...there seems to be no discernible correlation between minimum wage increases and a rise in business failures, either in the year the increase occurred or in the following year." (1) But whatever the merits of compensating small businesses, the tax cuts in the Nickles bill go far beyond any reasonable bounds for what might be justified as measures to cushion the effects of a higher minimum wage on small businesses. In addition to providing costly tax breaks to high-income taxpayers, most of whom do not work in small businesses, the tax cuts have the potential to hurt the very workers minimum wage legislation is intended to help.

Pension Provisions Are Poorly Targeted

The Nickles minimum wage legislation includes the pension tax provisions of the tax bill Congress passed and the President vetoed this summer. These provisions have at most a tenuous connection to any problems that small businesses are said to experience as a result of a minimum wage hike.

The proposed pension changes would relax various provisions of current law that limit the contributions that highly paid individuals may make to pension plans, as well as the amount of the pension payments that such high-income individuals may receive when they retire. For example, the bill would increase the maximum tax-favored contribution that an employed individual is permitted to make to a 401(k) plan from $10,000 to $15,000. This change would primarily benefit the fewer-than-five-percent of individuals covered by a 401(k) plan who make the maximum $10,000 contribution today; this is a group that receives average pay of $130,000. The bill also would increase the maximum benefit that a retiree can receive under a defined benefit pension plan from $130,000 a year to $160,000. That change would benefit only those at the very top of the income distribution whose salaries are so large that they would be able to qualify for annual pension payments of more than $130,000 when they retire.

These and the other pension-related tax breaks in this bill have little to do with assisting small businesses. Most small businesses, in fact, do not even offer pension plans. In 1993, only 13 percent of full-time workers in firms with fewer than 10 employees — and 25 percent of workers in firms with between 10 and 24 employees — enjoyed pension coverage. It is unlikely that many small businesses with large minimum-wage workforces would be affected by these expansions in pension tax breaks.

By contrast, 73 percent of workers in firms with 1,000 or more employees have pension coverage.(2) Most of the benefit of the pension provisions in the Nickles bill would accrue to highly-salaried executives of large corporations that already offer generous pension coverage.

An analysis by the Institute on Taxation and Economic Policy finds that 91 percent of the tax benefits from the pension provisions in the vetoed tax bill would go to the 10 percent of Americans with the highest incomes. By contrast, *the bottom 60 percent of Americans would receive less than one percent of these tax benefits*. The effect of these provisions would be a significant increase in the tax-preferred benefits of high-income individuals, with little expansion for the moderate- and low-income workers — many of whom work for small businesses — who most need to build savings for retirement.

In fact, some of the pension provisions could lead to *reduced* coverage for some low- and middle-income workers. For example, the bill would raise the amount of salary on which pension contributions may be made from $160,000 to $200,000. This would enable small business owners and highly-paid executives to maintain contributions for their own pension plans while reducing the firm's contributions for other employees. Consider, for instance, the case of a small business owner with compensation of $250,000 who wants to have the business contribute $10,000 a year to his pension. Under current law, the owner would have to set the firm's pension contribution rate at 6.25 percent of pay (6.25 percent of the $160,000 limit is $10,000). Both the owner and the employees would receive contributions equal to 6.25 percent of their compensation. Under the higher $200,000 limit the Nickles bill would set, however, the business owner could reduce the firm's contribution rate for its employees to five percent and still have the firm contribute $10,000 to his own pension. The employer contribution for an employee earning $40,000 would drop from $2,500 (6.25 percent of $40,000) to $2,000 (5 percent of $40,000). (3)

Provisions in the Nickles bill also would relax pension anti-discrimination rules and other rules barring firms from treating highly compensated employees more generously than average workers. These provisions could induce further erosion in coverage among low- and moderate-paid workers.

In a November 1 letter to House Ways and Means Chairman Bill Archer commenting on the identical pension provisions in the minimum wage legislation the House is considering (H.R. 3081), Treasury Secretary Lawrence Summers and Labor Secretary Alexis Herman raise concerns about the provisions in the bill that "...raise the maximum retirement plan contribution and considered compensation for business owners and executives and weaken the pension anti-discrimination and top-heavy protections for moderate- and lower-income workers." The letter emphasizes that the "...provisions are regressive, would not significantly increase plan coverage or national savings, and could lead to reductions in retirement benefits for moderate- and lower-income workers."

Health Insurance Deductions Little Help to Uninsured

Another provision of the vetoed tax bill that is included in the Nickles minimum wage legislation would create a new tax deduction for the purchase of health insurance by taxpayers who pay at least 50 percent of the cost of their health insurance premiums. At first glance, such a deduction may seem an attractive idea if it could help the uninsured obtain coverage or help small businesses cover their employees. Closer examination indicates, however, that this deduction — which would cost upwards of $8 billion a year when fully in effect — would provide little help to most of those lacking insurance and would not significantly reduce the ranks of the uninsured. Moreover, because the deduction provides a far deeper percentage subsidy for the purchase of insurance to higher-income business owners and executives than to lower-income wage earners, it could encourage small business owners to drop group coverage and rely on the deduction to help defray the cost of their own coverage. To the extent this occurs, the ranks of the uninsured could increase.

The deduction would provide little subsidy to lower-income wage earners, including most workers who currently are uninsured and those for whom employers pay inadequate shares of premiums to make insurance affordable. (4) Some 93 percent of all uninsured individuals either have incomes too low to incur income tax liability or pay income tax at the 15 percent marginal rate. These individuals would at most get a subsidy of 15 percent of the cost of purchasing health insurance. Rather than the uninsured or the workers who today cannot afford the premiums required to obtain adequate health coverage, those who would receive the largest benefits from such a deduction are, by and large, individuals in higher tax brackets who already purchase individual insurance.

- For low- and moderate-income families and individuals without employer-sponsored coverage, a 15 percent subsidy that leaves them with the other 85 percent of the premium cost is much too small a subsidy to make insurance affordable.

  For a family earning $35,000 whose employer does not offer insurance, the proposed deduction would reduce the out-of-pocket cost of a typical family health insurance policy that carries a $1,000 deductible from $6,700 to $5,860 — or from 19 percent of income to 17 percent of income. (5) An Urban Institute study shows that more than three-quarters of low- and moderate-income uninsured individuals will not purchase insurance that consumes more than *five* percent of their income. (6) Few families that have forgone health coverage because they cannot afford to spend 19 percent of income on it would find coverage affordable because a deduction had lowered its cost to 17 percent of income. (It is of note that the child health block grant established in 1997 set a limit on the premiums and co-payments that can be charged under programs receiving block grant funds, with the limit being *five* percent of income for families above 150 percent of the poverty line and smaller amounts for poorer families.)

- This provision might be of modest help to some moderate-income families whose employer pays half or nearly half of the premium costs since the deduction would be in addition to the employer subsidy. But even families whose employers pay 50 percent of the premium would receive only very modest help from the deduction. The deduction would reduce the proportion of the premium these families have to pay only from 50 percent of the premium to 42.5 percent. While that might help some families afford insurance, the number of such families likely would be small.

- Moreover, the deduction could induce some employers currently paying more than 50 percent of premium costs to scale back their contribution to 50 percent or less or even to drop coverage.

- The group that would appear to benefit most from this deduction would be higher-income taxpayers who purchase insurance as individuals. A health insurance deduction is worth more than twice as much to affluent individuals in the 31 percent, 36 percent, and 39.6 percent brackets than to moderate- and middle-income families in the 15 percent bracket.
- The proposed new health insurance deduction would allow small business owners or more highly-paid employees to purchase insurance for themselves, using the more generous subsidy the deduction provides, without the necessity of providing coverage for lower-paid employees. As a result, the deduction could provide an incentive for some small business employers to drop group coverage, or for some owners newly launching small businesses to decide to decline to provide such coverage. To the extent this occurs, it would adversely affect some of the same workers the minimum wage legislation is supposed to help.

Other Provisions

Two other provisions in the Nickles minimum wage bill are poorly targeted. These are the deduction for the purchase of long-term care insurance and the increase in the deduction permitted for business meals.

Deduction for Long-term Care Insurance

The bill includes a provision that would allow a new deduction for 100 percent of the premiums paid to purchase long-term care insurance. This provision would cost approximately $2 billion a year when fully in effect.

There are major problems relating to access to long-term care that need to be addressed. This proposal for a deduction for long-term care insurance premiums, however, would not help most middle-income people and could exacerbate the inequities in access and affordability that currently exist.

Three-quarters of all taxpayers, including most moderate- and middle-income taxpayers, pay federal income taxes at no higher than the 15 percent marginal tax rate. For this three-quarters of all taxpayers, a deduction would provide at most a subsidy of 15 percent of the cost of purchasing long-term care insurance. Long-term care insurance premiums are relatively expensive, and a 15 percent subsidy is unlikely to make long-term care insurance fit into the budgets of many middle-income families.(7)

The primary beneficiaries of the proposed deduction are likely to be higher-income taxpayers who currently carry long-term care insurance, and taxpayers in the higher tax brackets for whom a 36 percent or 39.6 percent subsidy makes purchase of long-term care insurance an attractive option. But these are likely to be the same taxpayers for whom long-term care access is not a major problem.

Business Meals Deduction

The bill also includes a provision to increase the proportion of business meals that small businesses (businesses with receipts below $7.5 million a year) may deduct. Currently, businesses may deduct 50 percent of business meals and drinks. This limitation on the "three-martini lunch" is intended to prevent excessively luxurious dining and drinking at taxpayer expense. The Nickles bill includes a provision that would raise to 80 percent the proportion of business meals and drinks that can be deducted, at a cost to the Treasury of about $2.5 billion a year when fully in effect. (Note that this goes beyond the vetoed tax bill, which would have raised the deductible portion to 60 percent.)

End Notes:

1. Jerold Waltman, Allan McBridge, and Nicole Camhout, "Minimum Wage Increases and the Business Failure Rate," *Journal of Economic Issues*, March 1998.

2. U.S. Department of Labor, Social Security Administration, Small Business Administration, and Pension Benefit Guarantee Corporation, *Pension and Health Benefits for American Workers,* 1994.

3. The pension tax provisions in the vetoed tax bill, all of which are included in the Nickles minimum wage legislation, are explained more fully in the Center report, *Exacerbating Inequities in Pension Benefits: An Analysis of the Pension Provisions in the Tax Bill*, by Peter Orszag, Iris Lav, and Robert Greenstein, October 8, 1999. The vetoed tax bill also included provisions that would make Individual Retirement Account tax breaks more generous; these IRA changes are not included in the Nickles minimum wage bill. (The distribution data cited above on the tax benefits that the Nickles bill pension provisions would provide thus do not cover the IRA expansions of the vetoed bill. Data on the distributional effects of the full package of retirement tax benefits contained in the vetoed bill, including the IRA expansions, are provided in *Exacerbating Inequities in Pension Benefits.*)

4. Census data show that at least 93 percent of uninsured individuals either pay no income tax or are in the 15 percent income tax bracket. Some 18 million uninsured individuals — 43 percent of all of the non-elderly uninsured — owe no income tax; their earnings are too low for them to incur an income tax liability. These uninsured individuals would receive no benefit from a tax deduction; a deduction would do nothing to make health insurance more affordable for them. Another 20 million uninsured individuals — 50 percent of the non-elderly people without health insurance — pay income tax at a 15 percent marginal tax rate. A deduction would provide these taxpayers with a subsidy equal to 15 percent of the cost of insurance not covered by an employer. General Accounting Office, Letter to The Honorable Daniel Patrick Moynihan, June 10, 1998, GAO/HEHS-98-190R, Enclosure II. The analysis is based on the 1996 Current Population Survey.

5. A General Accounting Office study found that in 1996, the middle of the range of premium costs was $5,700 for a family-coverage policy that included a $1,000 deductible. The proposed tax deduction would provide a subsidy of $840 for the purchase of a policy with a $5,700 premium ($840 equals 15 percent of $5,700). This means the family would have to pay the remaining $4,860, or 14 percent of its income, to purchase the health insurance policy. Since this premium is for a policy with a $1,000 deductible, another three percent of income would have to be expended before any benefits would be available. The family's net expenditure for health coverage — the premium plus the deductible — would total $5,860, or 17 percent of the family's income. Without the proposed tax deduction, the full cost of the policy plus the $1,000 deductible is equal to 19 percent of the family's income.

6. Leighton Ku, Teresa Coughlin, *The Use of Sliding Scale Premiums in Subsidized Insurance Programs*, Urban Institute, March 1997.

7. Long-term care premiums vary by the age at which the policy is purchased and the type and amount of long-term care expenses the policy will reimburse. A 1997 study by Consumers Union found premiums at age 55 ranged from $588 to $1,474 a year, while premiums at age 65 ranged from $1,042

to $3,100 a year. These policies cover individuals, so the costs for a couple would generally be double those amounts. *Consumer Reports*, October 1997.

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CENTER ON BUDGET AND POLICY PRIORITIES

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Tax Cuts in Lazio Minimum Wage Bill Overwhelmingly Benefit High-Income Taxpayers

by Iris J. Lav

Legislation to raise the minimum wage introduced by Representatives Rick Lazio and Gary Condit and expected to be considered on the House floor this week includes a set of tax breaks for high-income individuals, most of them from the tax bill Congress passed in August. These tax breaks include significant reductions in the estate tax. In fact, the estate tax provisions constitute the largest single set of tax changes in the bill. The bill also features a series of changes in tax laws related to pensions that would make pension tax breaks considerably more lucrative for highly paid executives and other highly compensated individuals.

The argument usually advanced for including tax measures as an accompaniment to a minimum wage increase is that small businesses need to be compensated for the increased wages they would have to pay under a higher minimum wage. This argument is not well-founded; the evidence does not indicate that modest minimum wage increases have significantly negative effects on small businesses. For example, recent research that examined whether minimum wage increases contribute to the failure rate of businesses found "...there seems to be no discernible correlation between minimum wage increases and a rise in business failures, either in the year the increase occurred or in the following year." [(1)] But whatever the merits of compensating small businesses, the tax cuts in the Lazio-Condit proposal go far beyond any reasonable bounds for what might be justified as measures to cushion the effects of a higher minimum wage on small businesses.

The Lazio-Condit bill would confer the vast majority of its tax reduction benefits on high-income taxpayers who do not operate small businesses. An analysis by Citizens for Tax Justice finds that 92 percent of the tax cut benefits in the Lazio-Condit bill would go to the 10 percent of taxpayers with the highest incomes.

Moreover, neither the estate tax reductions nor the pension provisions of the bill bear much relationship to any possible effects of a minimum wage increase on small businesses. These tax cut proposals would provide only an extremely small proportion of their benefits to small businesses.

Estate Tax Cuts Not Tied to Small Business Issues

Reducing the estate tax has little connection to any claimed effects of a minimum wage increase on small businesses. Only a tiny fraction of the estate tax is paid on small businesses that are included as part of estates. The overwhelming bulk of the large tax reductions that would result from the estate tax provisions of the Lazio-Condit bill, all of which were contained in this summer's vetoed tax bill, would accrue to wealthy individuals who are not owners of small family businesses.

IRS data show that individually-owned or family-owned small businesses account for a small fraction of assets subject to the estate tax. An analysis of 1995 estate tax returns found that business assets, such as closely-held stocks, limited partnerships, and non-corporate businesses, accounted for only 2.3 percent of the value of all taxable estates. These assets accounted for only 2.7 percent of the value of smaller estates, those with a value of less than $2.5 million.[(2)]

Furthermore, several provisions of tax legislation enacted in 1997 already are reducing estate taxes on small family businesses and farms. The amount of an estate that is exempt from taxation is now higher for family-owned businesses and farms than for other types of estates. Instead of the $650,000 general estate tax exemption (which is scheduled to rise to $1 million in 2006), the 1997 tax law increased the total exemption for most estates that include family-owned businesses to $1.3 million; in other words, *most estates including a family-owned business that are worth less than $1.3 million already entirely escape the estate tax*. The 1997 law also liberalized various other estate tax provisions that help small businesses, including rules that reduce the taxable value of small businesses.

The Lazio-Condit bill would make a number of changes that would further reduce the taxation of *all* estates, not just estates with family businesses. The changes include reducing the highest marginal tax rate that is applied to the largest estates from 55 percent to 48 percent, reducing by two percentage points each of the other graduated marginal estate tax rates, and eliminating a surtax that currently applies solely to estates valued at over $10 million. Another proposed change would substitute a deduction for the credit that implements the general estate tax exemption (the exemption scheduled to rise to $1 million in 2006), a change that tends to favor larger estates.

Table 1 shows the effect of the proposed changes in the estate tax on illustrative examples of estates of different sizes. As shown in that table, an estate worth $1.5 million would receive an estate tax reduction of approximately $64,000, while an estate worth $20 million would get an estate tax cut in excess of $1.7 million. Even in percentage terms, the estate tax reduction would favor large estates over smaller ones. As Table 1 indicates, the estate tax on the $1.5 million estate would be reduced by an amount equal to 4.3 percent of the value of the estate, while the tax on the $20 million estate would be sliced by an amount equal to 8.8 percent of the estate's value, more than twice as much.

Table 1
Illustrative Estate Tax Reductions Included in Lazio-Condit Minimum Wage Bill

Estate Size	Proposed Tax Cut	Tax Cut as a Percent of Estate Value
$1,000,000	$ 0	---
1,500,000	64,200	-4.3%
2,000,000	109,200	-5.5%
5,000,000	349,200	-7.0%
10,000,000	699,200	-7.0%
20,000,000	1,758,400	-8.8%

Calculations by Center on Budget and Policy Priorities. Assumes fully phased-in provisions.

Under current law, estate taxes are paid only by the estates of the wealthiest two percent of all decedents; those of lesser wealth have no estate tax liability. A recent Treasury Department analysis finds that 91 percent of all estate taxes are paid by the five percent of taxpayers with the highest incomes, a group with incomes in excess of $190,000 a year.[(3)] The evidence suggests that most of the benefits of the proposed estate tax reduction would be enjoyed by the estates of individuals who were wealthy investors with extensive holdings in stocks or other financial instruments and real estate and who were *not* owners of small businesses.

In short, a general estate tax reduction of this type cannot be justified as offsetting the effects of a higher minimum wage. To the extent that an argument can be made that problems remain regarding the taxation of small family-owned businesses under the estate tax, such problems could be specifically identified and addressed at a much smaller cost than the Lazio-Condit provisions entail.

Pension Provisions Also Are Poorly Targeted

The Lazio-Condit minimum wage legislation also includes the pension tax provisions of the vetoed tax bill. These, too, have at most a tenuous connection to any problems that small businesses are said to experience as a result of a minimum wage hike.

The proposed pension changes would relax various provisions of current law that limit the contributions that highly paid individuals may make to pension plans, as well as the amount of the pension payments that such high-income individuals may receive when they retire. For example, the bill would increase the maximum tax-favored contribution that an employed individual is permitted to make to a 401(k) plan from $10,000 to $15,000. This change would primarily benefit the fewer-than-five-percent of individuals covered by a 401(k) plan who make the maximum $10,000 contribution today; this is a group that receives average pay of $130,000. The bill also would increase the maximum benefit that a retiree can receive under a defined benefit pension plan from $130,000 a year to $160,000. This change would benefit only those at the very top of the income distribution whose salaries are so large that they would be able to qualify for annual pension payments of more than $130,000 when they retire.

These and the other pension-related tax breaks in this bill have little to do with assisting small businesses. Most small businesses, in fact, do not even offer pension plans. In 1993, only 13 percent of full-time workers in firms with fewer than 10 employees — and 25 percent of workers in firms with between 10 and 24 employees — enjoyed pension coverage. It is unlikely that many small businesses with large minimum-wage workforces would be affected by these expansions in pension tax breaks.

By contrast, 73 percent of workers in firms with 1,000 or more employees have pension coverage.[(4)] Most of the benefit of the pension provisions in the Lazio-Condit package would accrue to highly-salaried executives of large corporations that already offer generous pension coverage.

An analysis by the Institute on Taxation and Economic Policy finds that 91 percent of the tax benefits from the pension provisions in the Lazio-Condit bill would go to the 10 percent of Americans with the highest incomes. By contrast, the bottom 60 percent of Americans would receive less than one percent of these tax benefits. The effect of these provisions would be a significant increase in the tax-preferred benefits of high-income individuals, with little expansion for the moderate- and low-income workers — many of whom work for small businesses — who most need to build savings for retirement.

In fact, some of the pension provisions could lead to *reduced* coverage for some low- and middle-income workers. For example, the bill would raise the amount of salary on which pension contributions may be made from $160,000 to $200,000. This would enable small business owners and highly-paid executives to maintain contributions for their own pension plans while reducing the firm's contributions for other employees. Consider, for instance, the case of a small business owner with compensation of $250,000 who wants to have the business contribute $10,000 a year to his pension. Under current law, the owner would have to set the firm's pension contribution rate at 6.25 percent of pay (6.25 percent of the $160,000 limit is $10,000). Both the owner and the employees would receive contributions equal to 6.25 percent of their compensation. Under the higher $200,000 limit the Lazio-Condit bill would set, however, the business owner could reduce the firm's contribution rate for its employees to five percent and still have the firm contribute $10,000 to his own pension. The employer contribution for an employee earning $40,000 would drop from $2,500 (6.25 percent of $40,000) to $2,000 (5 percent of $40,000). [(5)]

Other Proposals

The Lazio-Condit bill also includes various other tax provisions from the vetoed bill. Most of these provisions, as well, tend to have tenuous connections to the alleged effects of a minimum wage hike on small businesses. For example, under provisions enacted in 1997, the proportion of health insurance premiums that self-employed persons may deduct is scheduled to rise from 60 percent in 1999 to 100 percent in 2003; the Lazio-Condit bill accelerates this phase-in schedule. Self-employed persons are excluded from minimum wage requirements, however, so a provision that solely affects the self-employed cannot be an offset to the claimed effects of the minimum wage.

Another such provision is an increase in the proportion of business meals that may be deducted. Currently, businesses may deduct 50 percent of business meals and drinks. This limitation on the "three-martini lunch" is intended to prevent excessively luxurious dining and drinking at taxpayer expense. The Lazio-Condit bill includes a provision of the vetoed tax bill that would raise to 60 percent the proportion of business meals and drinks that can be deducted, at a cost to the Treasury of about $1.3 billion a year.

In considering any tax proposal that may be attached to the minimum wage bill, it is important to consider whether the proposed tax change is reasonably targeted to offset some demonstrable adverse effect from a minimum wage hike. These tax provisions of the Lazio-Condit bill do not meet that test.

Endnotes:

1. Jerold Waltman, Allan McBridge, and Nicole Camhout, "Minimum Wage Increases and the Business Failure Rate," *Journal of Economic Issues*, March 1998.

2. Internal Revenue Service, *SOI Bulletin*, Winter 1996-97.

3. Julie-Ann Cronin, U.S. Treasury Distributional Analysis Methodology, OTA Paper 85, September 1999.

4. U.S. Department of Labor, Social Security Administration, Small Business Administration, and Pension Benefit Guarantee Corporation, *Pension and Health Benefits for American Workers,* 1994.

5. The pension provisions in the vetoed tax bill, all of which are included in the Lazio-Condit minimum wage legislation, are explained more fully in the Center report, *Exacerbating Inequities in Pension Benefits: An Analysis of the Pension Provisions in the Tax Bill*, by Peter Orszag, Iris Lav, and Robert Greenstein, October 8, 1999. The vetoed tax bill also included provisions that would make Individual Retirement Account tax breaks more generous; these IRA changes are not included in the Lazio-Condit minimum wage bill. The distribution data cited above on the tax benefits that the Lazio-Condit pension provisions would provide thus do not cover the IRA expansions of the vetoed bill. Data on the distributional effects of the full package of retirement tax benefits contained in the vetoed bill, including the IRA expansions, are provided in *Exacerbating Inequities in Pension Benefits.*

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