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EVIDENCE AGAINST A HIGHER MINIMUM WAGE

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EVIDENCE AGAINST A HIGHER MINIMUM WAGE

Wednesday, February 22, 1995

CONGRESS OF THE UNITED STATES,
JOINT ECONOMIC COMMITTEE,
WASHINGTON, D.C.

The Committee met at 9:35 a.m. in room 2322 of the Rayburn House Office Building, the Honorable Jim Saxton, Vice Chairman of the Committee, presiding.

Present: Representatives Saxton, Ewing, Quinn, Manzullo, Sanford, Thornberry, Stark and Mfume, and Senators Kennedy and Robb.

Staff Present: Lawrence Hunter, Lee Price, Juanita Morgan, Colleen J. Healy, Missy Shorey, Roni M. Singleton, Andrew Quinlan and William Spriggs.

OPENING STATEMENT OF REPRESENTATIVE JIM SAXTON, VICE CHAIRMAN

Representative Saxton. I know that our witnesses' schedules are busy and we are expecting a full complement of Members this morning, but we will begin with opening statements and then we will move right to our first panel of witnesses.

Let me begin by welcoming everyone to this Joint Economic Committee hearing on the President's proposal to increase the minimum wage by 21 percent from $4.25 per hour to $5.15 per hour. I want to welcome my colleagues and all of our witnesses who have come here to join with us in this discussion today.

We want to give the President's proposal a thorough airing today so our agenda this morning will be a full one. During the question and answer period we will abide by the early bird rule, which means those who appear first will ask questions first, as well as the five-minute rule. In order to make it possible to hear fully from all of our witnesses, each witness will be asked to keep his or her remarks to five minutes, and of course we have that nasty little red light that goes on, so we will abide by it. Full written statements, of course, will be included in the hearing record in their entirety.

Let me say at the outset that when the President was elected I publicly stated that I would look for every opportunity to cooperate and try to do things on a bipartisan basis, but I also have to say that I am forever grappling with the puzzle as to, where President Clinton is concerned, how can a man who is so smart -- and he is -- and who feels so much for the least fortunate among us -- and he does -- continually come up with so many destructive policies, policies that actually threaten to harm the very people the President aims to help? I can only find two explanations.

First, it is pretty clear that some of the ideas put forth by this Administration are never intended to become law, they are politically motivated, in my view, to score points with special interest constituencies such as labor unions and to embarrass the President's political opponents. The political motivation behind Clinton's minimum wage proposals then are very clear to me.

If they weren't so motivated, why didn't the President propose this idea to the Congress last year when Democrats controlled both Houses and he presumably could have passed his proposal? Why does the President's favorite think tank, one which he, incidentally, helped to create before he was President, the think tank known as the Progressive Policy Institute, oppose an increase in the minimum wage? That is right. They oppose this minimum wage increase.

This chart is put out by the President's Progressive Policy Institute, which I will refer to as PPI, and it tells why. Because the PPI understands that the vast majority of minimum wage workers are in families with incomes well above the poverty line. Because the PPI knows that raising the minimum wage is self-defeating and hurts the very people it is intended to help, and the President knows it too or at least he knew it up until the November election.

This brings me to the second reason this Administration continues to come up with such policy initiatives. President Clinton gets incredibly bad economic advice, at least in my view.

For example, last year the President defended his health care mandate by telling Herman Cain -- owner of Godfather's Pizza, and one of our witnesses today -- that Godfather's could offset the cost of the health care tax mandate: Just raise prices. The President and his Labor Secretary, Robert Reich, want to apply the same kind of what I call -- and I can find no other way to describe it -- as quack economics and apply the same philosophies and the same theories to the minimum wage.

Mr. Reich has actually said that raising the minimum wage increases employment. You heard me right. Mr. Reich has said that raising the minimum wage creates more job opportunities. As we will see during the course of this hearing, there is virtually unanimous agreement among economists that raising the minimum wage is job destructive and raises unemployment.

This chart depicts the conventional view of people in the economic profession. The minimum wage is measured along the vertical axis, and the rate of unemployment is measured along the horizontal axis.

As the blue line clearly shows, increasing the minimum wage drives up unemployment. Mr. Reich would have us believe just the opposite. Under the Reich unconventional theory, raising the minimum wage actually leads to more jobs and lower unemployment. The other chart that we are referring to here shows this very clearly, and if this is true, then we ought not to worry about raising the minimum wage whatsoever, we ought to just have a big increase in the minimum wage. We shouldn't have to worry about $5.15 an hour, just a 90-cent increase; shucks, why don't we just increase the minimum wage by a dollar or two dollars or three dollars and create even more jobs?

Mr. Reich will cite 12 studies. I call them the questionable dozen. As evidence of this Administration's unconventional view, they are centerpiece. Four of these studies are simply variations of one theme by the same three individuals, one of whom was formerly Mr. Reich's chief economist at the Labor Department and one of whom is Reich's current chief economist at Labor.

One of the studies is an internal Labor Department report, two of the papers are published and have not even been subject to peer review yet, two of the 12 studies are of foreign countries in considerably different economic circumstances than ours, and one was not even a study but a simple comment.

The mainstream conventional view, the one that is held by virtually all serious economists -- and let me just pause at this point. We have got Secretary Reich's 12 studies here on my left, and we have got the conventional view studies over here. There are more than 100 of these, true, tested studies by individuals who are well respected in the economic profession.

The mainstream conventional view, the one that is held by virtually all serious economists, is based on more than 25 years of solid empirical research conducted by hundreds of economists from all persuasions across the breadth of this country. Which interpretation to believe is the question today.

Let's start with a few facts from the studies on minimum wages. In 1991 the Congressionally-mandated Minimum Wage Study Commission concluded that a 10 percent increase in the minimum wage reduces teenage employment by 1 to 3 percent. Based on these findings, one can anticipate that between 130,000 and 400,000 jobs will be lost if the Clinton plan is adopted.

This chart shows that 57 percent of those that benefited from the last minimum wage increase were from families with household incomes greater than $45,000. As Secretary Reich said in 1993, "After all, most minimum wage workers are not poor." That's right. That is Secretary Reich's quote.

From 1981 to 1990, as this other chart shows, the minimum wage did not rise and teenage unemployment fell. Think of it. The minimum wage did not go up, and teenage unemployment went down. In other words, more teens went to work during the eighties. Since the minimum wage increase in 1990, the teenage unemployment rate has risen to more than 20 percent. Incredible, how they track together.

In conclusion, compassionate politicians and well meaning government programs like the minimum wage cannot repeal the law of supply and demand any more effectively than they can repeal the law of gravity. In fact, Majority Leader Dick Armey says without hesitation that it is the minimum wage law that ought to be repealed.

We will now hear from other Members who may have opening statements, as I suggested they might, and I will turn to the Ranking Minority Member, my friend, Mr. Stark.

[The prepared statement of Representative Saxton and the charts appear in the Submissions for the Record.]

OPENING STATEMENT OF REPRESENTATIVE PETE STARK, RANKING MINORITY MEMBER

Representative Stark. Thank you, Mr. Chairman, for today's hearings on the proposal to increase the minimum wage.

More than 12 million workers earn wages between the current minimum of $4.25 and the proposed new minimum wage of $5.15. Nine million are adults, and a million work in my home State of California. Economists have estimated that most American workers have held a minimum wage job at some point in their careers.

Until the 80s, the wage was raised on a regular basis and successive groups of workers observed their wages rise without a loss of their jobs, and that explains why several recent polls have found that 75 percent of the American public support an increase in the minimum wage and they don't fear any significant job loss. These Americans seem to know intrinsically that the current minimum wage is too low and that raising it would make life better for all workers. There really aren't any negative consequences involved. They, however, mostly do not have economics degrees from leading agricultural colleges, but they do understand the economics of working and try to survive.

I found very interesting the national *Times-Mirror* poll released last week, and when the poll focused on those people who voted for a particular Republican congressman, just using that as their universe, it found that 60 percent expressed support for the proposed 90-cent hike in the minimum wage.

Ten days ago the Majority Leader, Mr. Armey, wrote in *The Washington Times* -- a hotbed of liberalism, I might add -- that an increase in the earned income tax credit would be preferable to a minimum wage. Now with an argument like that, you might think he was truly interested in helping out the working poor. He is a man I have accused of having the heart of a Doberman pincher and the mind of a piranha fish, but he was able to conjure up $700 billion worth of tax cuts for his so-called Contract With America and still not produce a dime to improve the tax credit for working poor.

Representative Saxton. He says nice things about you.

Representative Stark. I understand that.

Contrary to the implication of my Republican friends, we don't face an either/or proposition with the earned-income tax credit and the minimum wage, we can and should do both. Two years ago we raised the earned-income tax credit, and we can now complement the strengthened tax credit with an increase in the minimum wage.

The 90-cent hike would provide a year-round, full-time worker about $1,800 more per year. Taken with the current earned-income tax credit, that would take a family of three from $1,000 below the poverty level to $1,000 above it.

We are going to hear from a lot of rich executives today who make more in five minutes than these people make all year, and I think to focus this on whether or not we can produce more pizzas than Japan is an absurdity. We are here to deal with people who have trouble surviving work in these pizza parlors that can't afford to buy their own product.

We are beginning a major debate about revising welfare programs with lots of Republican talk of work, personal responsibility, tough love. Now unless we make it possible for responsible people to work for a living wage, we are going to have a lot of toughness and not much love, Mr. Chairman.

The 20-year decline in the earning power of those at the bottom of the wage ladder has been a major contributing factor to our welfare problem, and any program to move people from welfare to work has to include a decent minimum wage. We can't forget that 35 million Americans still lack health insurance coverage today, which is why this minimum wage discussion was postponed last year, because we were going to charge these same employers you are going to hear today with the responsibility of contributing 90 cents an hour to minimum health benefits, and we heard the same claptrap about how they would go broke if they did what their competitors do and provided the decency of health insurance. That was sufficiently sidetracked by the now majority party, and so we are back attempting in some small way to compensate these workers, most of whom do not have health care coverage, with a decent minimum wage.

These employees are going to have to pay preventive health care services out of their own pocket -- the workers are -- and a hike in the minimum wage would help them to obtain some health services. The American people know the right to earn a decent living, even at the lowest end of the pay scale, is something this country should stand for, and anyone who argues that a higher minimum wage is unnecessary or economically harmful, it seems to me, is looking for a way to not pay people what they need to make a decent wage.

To have to run a business that can survive on the margin only by underpaying people who work the hardest in terms of physical labor would take us back very rapidly to earlier in the 19th Century because the extension of not increasing the minimum wage is to go back to child labor, slavery, indentureship, and I am sure that is not the direction that the Republicans, with their new-found responsibility, wish to take us.

I look forward to hearing our witnesses, and I will be interested to discuss with them what goes on in their District and how many of their constituents are living at or below the minimum wage and what they intend to tell them if we are unable to assist them in some small way by encouraging this modest increase.

Thank you, Mr. Chairman.

[The prepared statement of Representative Stark appears in the Submissions for the Record.]

Representative Saxton. The gentleman from New York, Mr. Quinn.

OPENING STATEMENT OF REPRESENTATIVE JACK QUINN

Representative Quinn. Thank you, Mr. Chairman, and I, too, want to join in thanking you for putting together this hearing today.

Shortly after the President's budget proposal I asked Mr. Saxton if he could convene some kind of discussion on raising the minimum wage, and I think we have seen already this morning with just two panel members here how different the discussion is going to be probably from those we hear from today on our panels and, more importantly, from the discussion that at least I hear back home in my District in Buffalo and Western New York.

When I talked to the mayor of our City, the City of Buffalo, and said to him I want to get some feedback from what we are doing in municipal government, for example, because we have panels today that will talk about business executives, we have citizen panels, and we will hear more, I'm sure, later on as our session continues. But when I talked to my mayor in the City of Buffalo he said to me, "At $4.25 an hour the city of Buffalo hires 1,450 youths. If we are going to be asked to raise that to $5.15, Jack, we are going to be able only to hire about 1,200."

And we are going to look at the charts, and we have got the documentation, Mr. Chairman, here today, and I am glad I didn't ask for that to be moved. I almost couldn't see Mr. Langley when I first came in over the pile of paperwork that is there. But I think as we see the documentation and as we talk with some of the experts, I don't want to lose track of the experts that I rely on back home in Buffalo and Western New York, and not only are those the folks that are working at those wages, Mr. Chairman, but also certainly we are not going to compare business executives necessarily to people making minimum wages, but we have got to remember that those business executives are the same people that hire the workers that pay those wages, and I think the most important thing we can do is keep an open mind during these hearings.

What worries me a little bit is that we have got a lot of people that seem to have already made up their mind. I would prefer to listen to the testimony, Mr. Chairman, and ask all our Members in the House to make sure that we keep close contact back in our districts to make sure we don't do something that is harmful, at least in Western New York where I come from, with an economy that is already very, very fragile, and I look forward to hearing the testimony today and others on the panel.

Thank you.

[The prepared statement of Representative Quinn appears in the Submissions for the Record.]

Representative Saxton. Thank you for your very thoughtful statement, Mr. Quinn.

I will turn now for a final statement to the gentleman from South Carolina, Mr. Sanford.

OPENING STATEMENT OF REPRESENTATIVE MARK SANFORD

Representative Sanford. Mr. Chairman, I am going to pass on an opening statement so that we can allow our panel to go ahead and get started.

Thank you, sir.

Representative Saxton. Okay. Thank you very much.

Once again we will be abiding by the five-minute and early bird rules for this hearing. We look forward to hearing from many distinguished witnesses we have assembled today.

Having said that, I would now like to welcome Congressman Jim Longley from Maine here this morning.

Thank you, Congressman, for taking your time to be here with us. And then we will hear from Representative Major Owens. And, again, watch those little lights in front of you. Please try to finish as promptly as you can after the red light goes off.

PANEL I

STATEMENT OF THE HONORABLE JAMES B. LONGLEY, JR., REPRESENTATIVE FROM MAINE

Representative Longley. Thank you, Mr. Chairman. I am going to get started right away.

I think much of the debate over the minimum wage is misplaced. It obscures a cruel hoax being perpetrated on the working poor of this country by an elite group of politicians, academics, and bureaucrats with little or no practical experience in business nor any willingness to acknowledge the extent to which the Federal Government's desperate need for tax revenues now threatens to obscure, even eliminate, any possibility of attaining any of the goals of social justice that the minimum wage was first instituted to achieve. In simple terms, in my opinion, the current proposal represents a betrayal of the principles of Franklin Roosevelt in the New Deal and plain ignorance about the realities involved in trying to create jobs in this country.

I have some material in my prepared text relating to the differences between the social conditions in 1938 and where they stand today. I would like to move forward and deal specifically with the tax issues, because, specifically when Social security, minimum wage and unemployment legislation was adopted in the 30s, the tax structures that were implemented to pay for these programs were reasonable and consistent with what the economy could support.

For instance, in the late 30s employer taxes were about 1 percent a piece for workers' compensation, unemployment insurance and Social security, about 3 to 4 percent of wages, only a fraction of what they are today. How bad are these taxes today? In my campaign I spoke often of the fact that if I bought a pack of cigarettes in my home State of Maine I would pay three taxes or that if I bought a six-pack of beer I would pay four taxes, and we call these taxes sin taxes, but what do we call it when an employer creates a job for a working person and is burdened with the payment or management of nine different taxes or mandates and the total burden often exceeds 25 to 30 percent of wage? The tax burdens associated with creating a job today are nothing short of overwhelming. Even worse, many policymakers show no sign whatsoever of acknowledging the burden that has been created.

I have prepared an analysis that shows the existing burden, and if you go to page two of the chart.

In reality if we look at the $4.25 minimum wage today the effective minimum is really $4.97, at least in the State of Maine, because that is what the minimal cost is to an employer in order to hire that individual, and at the minimum wage of $4.25 the total tax burden is over a dollar, and that breaks down between five taxes that are paid by the employer and four taxes that are paid by the employee, and anyone that has ever hired an individual understands that an employee takes a job for take-home pay as opposed to an employer who has to figure out what the gross cost is, and when you add in the worker's compensation, the State unemployment, the Federal unemployment tax, and the Social Security taxes, Medicare taxes -- and I don't, in any way, question the importance of these programs, but we have reached the point where we have so burdened the employers with the cost of managing these programs that they are opting not to create the jobs to begin with.

As you will note here on the chart the $4.25 is right here. Below that line are the taxes paid by the employee. Above that line are the taxes paid by the employer. These are the statutory withholdings. So the result is that the employee sees $3.93 in take-home, the employer sees a cost of almost $5 an hour.

I am going to wrap up in this way. In effect, what we are seeing in the President's proposal is not only an increase in these taxes because every one of these is based on a flat percentage of wage and it totals about 24 percent at $4.25, but every one of these that is percentage-based will also be increased as a result of the President's proposal, and the increase as a percentage of taxes paid or cost paid is actually greater, and the Government benefits to a larger extent than the individuals that we are trying to help.

I want to just wrap up. Michael Kingsley said it best a year ago in his article, "My Failed Jobs Program," when he indicated that it takes a minimum of 37 different forms and 50 separate checks to hire a single employee for a year even if she graciously agrees to be paid only once a month.

The real issue, in my opinion, is excessive government spending, high taxes, and regulatory hassles, not the minimum wage. If we focus on these real issues, controlling government spending and reducing the tax and regulatory burden, we will achieve the meaningful increases in take-home pay that the working poor truly deserve, and I might just add as one note, I think that we have a serious problem because policymakers do not understand the economics of creating a job, and the best proof of that is in this column. If you will notice, I have included additional taxes, health insurance, training tax, and health care tax, which were taxes that were proposed in the last session, particularly by the Administration, to pay for health care and other training tax to pay for training employees for, "the jobs that don't exist yet", as well as there was a proposal in the Ways and Means Committee to double the Social Security tax. The net result could have been, at the minimum wage of $4.25, an increase from $1.03 an hour in a tax and mandate burden to well over two dollars, and this to me is the issue. We are so saturating this wage and the wage structure with taxes and mandates and regulations that is where we are finding the decline in take-home wages, that is where we are finding the decline in jobs.

Thank you, Mr. Chairman.

[The prepared statement of Representative Longley appears in the Submissions for the Record.]

Representative Saxton. Thank you, Mr. Longley.

I am going to turn now to the gentleman from New York. Major Owens represents the 11th District in New York. He is serving in his seventh term, first elected in 1982.

Major Owens.

STATEMENT OF THE HONORABLE MAJOR R. OWENS, REPRESENTATIVE FROM NEW YORK

Representative Owens. Mr. Chairman and Members of the Committee, as the Ranking Member of the House subcommittee with jurisdiction for the Fair Labor Standards Act, I thank you for the opportunity to present my views in support of President Clinton's proposal to increase the minimum wage.

The value of the minimum wage is now 27 percent lower than it was in 1979, and if it were to stay at its current level it would fall to its lowest real level in 40 years. The minimum wage was last increased in 1991 to $4.25, and in the years since inflation has reduced the real purchasing power of the hourly wage by 45 cents. As a result, more and more Americans are falling into poverty and, despite full-time employment, are unable to provide for their families without public assistance.

The day after she delivered the Republican response to the State of the Union Address, Christine Todd Whitman, the Governor of New Jersey, stated, "Obviously in my State if you tried to live on a national minimum wage you couldn't do it," and New Jersey of course has a State minimum wage higher than the national minimum wage. That is as succinct an explanation of the need to increase the minimum wage as I have yet heard. Governor Whitman truthfully and forcefully highlights the public policy contradiction that while we extol the value of work our refusal to raise the minimum wage shows great contempt for workers.

Work is an enduring moral and family value endorsed by all Americans from one end of the political spectrum to the other. Conservatives, moderates, liberals, Democrats, and Republicans, we all advocate work and employment as vital for the core of our democratic capitalistic society. Work and regular pay checks we recognize as absolute necessities for family health, solidarity, and survival. We have overwhelming, almost total, agreement on this Jude-Christian and American value. Support for the work ethic brings us all together.

Our minimum wage laws are the most important expressions of public policy support for the work ethic. Work is a value unto itself. The minimum wage law places a floor under the value to be assigned to work. To reject an increase in the minimum wage is to treat the work ethic with crushing contempt.

During the exit poll interviews last November, workers at every level expressed great anger at the continuing failure of their wages to climb at a rate to match the rising cost of living. Even workers whose wages are far above the minimum wage favor an increase because the minimum wage law sets the floor standard that serves as a stimulus for all of the wage rates above the floor. Without a doubt, an increase in the minimum wage boosts the overall status of the work ethic. On the other hand, opposition to the minimum wage is a denigration of work, it shows contempt for work.

Again, there is agreement among all parties that we should end welfare as we know it and we should substitute work for the public assistance check. I firmly agree with this objective, and I have introduced a bill, H.R. 805, which would create a million jobs per year. There is plenty of work to be done. However, work is not a job unless there is money to pay for the labor. When we demand that people go to work we must define work as a job which at least pays the minimum wage and offers basic health care. In the context of the rich American economy with its high standard of living, to offer anything less is to treat work with contempt. To oppose an increase in the hourly minimum wage to $5.15 over the next two years is to say to welfare recipients and all other workers that we are really planning an economy which is going toward a new kind of slavery.

Over 80 percent of the American people agree that a minimum wage increase is in order, but I would weigh the common sense of the 80 percent of the American people who feel this way against all of these studies that you have here and all these professors who produced these studies.

The American consumer, that great market out there, the magic of the modern world, that market that made prosperity possible not only for Americans but for the whole world -- everybody is coming to our market to sell products to our consumers. How are our consumers able to buy these products? Because they have the highest wages. They traditionally have the highest wages in the world. A minimum wage worker, working 40 hours a week, 50 hours a year these days, without missing a day or an hour earns a gross income of $8,500, $170 a week before taxes and Social security are taken out. A Member of Congress earns as much in 28 days as a minimum wage worker does in a year. The average CEO of a Fortune 500 company earns as much in 28 hours.

CEOs, of course, don't buy a lot of these products. They don't buy pizzas, they don't buy many of the products that are sold in our marketplace, they don't make our economy turn over. This is an outrageous disparity. It displays great contempt for the wage earners who are on the front lines in our economy.

Sixty-three percent of minimum wage earners, almost two out of three workers, are over the age of 20. It is a big lie that they are teenagers. They are over the age of 20. Even with the earned-income tax credit added to the minimum, a mother earning the minimum wage cannot support herself and two children above the poverty line. Eleven million Americans currently earn less than $5.15 an hour. Increasing the minimum wage even by a modest 90 cents over two years provides genuine assistance to those who are increasingly being left behind.

The Republican Contract With America includes the promise of enacting more than a dozen tax cuts. The tax cuts promise to raise the real income of those making $200,000 or more by 3 percent. Those making $10,000 or less will see their income raised by one-half of 1 percent. When expressed in real dollar terms, the bias in this proposed tax credit is even clearer. When fully implemented, a family earning $200,000 or more will see their after-tax annual income increase by $11,450 in 1995 dollars. A family earning less than $10,000 may see an increase of $25. The Contract's promised tax cut to the wealthiest Americans is worth almost 6.5 times more than the $1,800 gross annual increase a minimum wage worker would receive if the President's minimum wage increase is fully implemented.

Put another way, the proposed annual increase in real income that the Contract promised to those who are already earning more than $200,000 a year is $1,000 more than a full-time minimum wage worker would earn in a year if the President's minimum wage proposal is enacted, and it is $3,000 more than a minimum wage worker would earn if you left the minimum wage the way it is today.

This Republican Contract shows contempt for the work and the wages of those with the greatest needs and the lowest incomes in America. In the end, the ultimate dignity of work is the ability it confers to a person to independently support oneself and one's family.

The purpose of the minimum wage law is to establish a floor so that the market pressures are not permitted to force people to work for less than the amount necessary to support oneself. It is both hypocritical and vain for this Congress to maintain, on the one hand, that Americans must work for a living as we are seeking to do in the welfare reform legislation and, on the other hand, refuse to increase the minimum wage, denying millions of Americans the ability through employment to earn a living wage. We must end this contempt for the work ethic. We must officially, through public policy, reaffirm our advocacy of work as a moral value and work as a family supporting value.

I thank you.

[The prepared statement of Representative Owens appears in the Submissions for the Record.]

Representative Saxton. I thank you, Major Owens, for a very fine statement.

Let me say before we begin this round of questioning that the five-minute rule will be adhered to strictly. We have another panel which will follow and some of those folks have to leave in a timely fashion. We are going to make sure that happens, and in doing so we will limit ourselves strictly to five minutes.

Major Owens, I am not surprised that we disagree at least at the outset of this hearing, and I think that no one should be surprised that we come from two different perspectives.

You mentioned New Jersey, and that is where I live, and I am very familiar with the wage patterns in New Jersey having been a businessman there myself before I came here. I would just like to ask -- and let me frame this question this way, and I don't mean it to be a smart-alec question, so to speak, but I think it points out where my perspective of the minimum wage and yours differs.

I recently received a letter from a gentleman from the Philadelphia area by the name of Ed Satell, and he wrote -- because he read that we were going to be holding this series of hearings -- to express his concern about increasing the minimum wage.

Mr. Satell employs college students during the summer, about 300 of them. He puts out a publication which goes out to some group of people to disperse some kind of information, and the 300 college students that he employs in the summer obviously enjoy 10 weeks of good work. He indicated to me that he was going to open two more shops. He currently has five. He was going to open two more shops in the southern part of New Jersey where I live, and he said that because the minimum wage situation that exists in New Jersey which you spoke of is $5.05 an hour, I believe, that he chose to open those two new shops in Pennsylvania where the minimum wage is $4.25 an hour.

Now he doesn't pay the minimum wage, he uses it as the basis for his wage structure, the minimum wage, but he adds incentives to it because you can't get anybody to do this kind of work in New Jersey or in Pennsylvania for $4.25 an hour. So he tells his young college students, the 300 that he hires -- and, incidentally, it is now 600; he did expand those other two shops; he now has 600 folks -- all of whom work in Pennsylvania. My constituents got cheated because of our minimum wage -- he tells the college students that come to work for him, "If you show up every day on time this week you will get an extra 25 cents an hour." Then he tells them, "If you work the full 10 weeks like you signed up for when you signed up to come to work for me for the summer, I will give you a retroactive bonus of 50 cents an hour." And then there is an additional, believe it or not, $6.50 in wage enhancements that people can earn by being good at their job, a total of $11.50 a student can earn during the summer by working for Ed Satell. Now that is that way for a couple of reasons. One is that the law of supply and demand for labor and the supply of labor. Ed Satell has to get to somewhere around $10 or $11 before he can get the kind of labor that he needs.

We don't really have that kind of a minimum wage, therefore, in New Jersey. McDonalds pays their part-time workers $7 or $8 an hour, but it is not a minimum wage that is mandated by the state or the Federal Government, it is a minimum wage level that is arrived at because of the law of supply and demand.

Now I guess my question is kind of an esoteric one. What is it that you see in this minimum wage that benefits those folks, college students, other low-wage earners, that the law of supply and demand doesn't provide in a much more meaningful way, more meaningful in terms of the opportunity for the employer to get more production out of his work force and more meaningful from the employee's work in being able to earn $10 or $11 an hour?

Representative Owens. Mr. Chairman, I think you shouldn't feel so bad about losing those jobs. College students are very mobile, and I am sure the New Jersey students just went across the line and worked in Pennsylvania.

But your whole example is saying that the more money there is, the greater the productivity, and I wholeheartedly endorse the example you gave. That employer knows that the more money you put on the table, the greater productivity you get, so that is an argument for raising the minimum wage.

You know, we have to make some employers act in an enlightened fashion. This one is enlightened, and he knows that, but others are not as enlightened at every step of the way. In our economy, when you had Social security created, when you had a first minimum wage created, employers said they would go broke, but what they have done instead -- and unions came along and bargained for higher wages -- what we have done is created a larger and larger consumer market which has made the economy grow, and as I said before, it is the people in my neighborhood who buy the pizzas and the fast foods, not the CEOs and the upper-income folks, they don't buy those food products or a whole lot of small consumer products. The turnover of our economy is based on the money that goes into the pockets of people at the lowest end of the economic ladder, and the more they have, the better off the total economy is.

Representative Saxton. Thank you very much.

I will turn to the Ranking Member.

Representative Stark. I thank the Chairman.

It is interesting. The staff just informed me that during these minimum wage increases New Jersey did better than Pennsylvania and New York in job gain, and one would think if it was so tough in New Jersey they would have all gone next door to Pennsylvania and New York to get a job.

Representative Saxton. Well, we had a Republican Governor that decreased taxes during that period of time.

Representative Stark. I see.

Representative Owens. There are other factors that are much more important.

Representative Stark. New Jersey did better, is what I am trying to say, in spite of that.

Mr. Longley, I know that you have had a great experience as an entrepreneur starting businesses in Maine, and I would love to have a chance to talk about that more, but I would like to get this down to a level that I can understand it.

A minimum wage worker today in Maine, in 22 days, eight hours, makes about $700 -- $740/$750 a month gross, and let's say that we took 8 percent out for social security and whatever else, and that could be much more I suppose. A person in your first District has $688 to live on.

Now in your District, 88 percent of the people go to work by car; $100 a month minimum? Insurance, gas, to keep a car in Maine? A lot more antifreeze than in California. That is fair, all right? So we get them down to $588 a month. And let's suppose that this is a single mom with a kid or a single person. I am going to spot them ten bucks a day: Toothpaste, toilet paper, clothing, food. A little cheaper in Maine, I think, to live than California. So that leaves them with $288 for shelter, utilities, health insurance, a Blockbuster movie on Friday night.

Now there are some other interesting things. I mean I don't know how much a person would spend on rent and utilities. I don't think you can buy a house. What would you guess in your District, what minimum shelter place? How much a month?

Representative Longley. You would be spending at least $70,000, $80,000.

Representative Stark. No. I mean to rent. These people can't buy a house.

Representative Longley. You could easily pay a couple of hundred bucks, more than a couple of hundred bucks a month.

Representative Stark. Two fifty.

Representative Longley. Probably higher, three or four hundred maybe.

Representative Stark. Well, they have only got $288 left.

Representative Longley. You are right.

Representative Stark. Now there were 53,000 people in your District below the poverty level in the last census, and you had 30,000 households with incomes below this level. You had 11 or 12,000 rental units for less than $250 month. Now somehow you shoe-horned 30,000 households into those 11,000 units, and you must have had a lot of poor people crowded in.

Representative Saxton. Would the gentleman yield to me for just one moment? I would just like to advise the gentleman that if you wish to use the entire five minutes asking the question, that is okay, but it would be fair to either witness to give them a good opportunity to respond. So please ask your question.

Representative Stark. Well, Mr. Chairman, I am just about to do that. I hope you will take the interruption out of your time and not mine.

It must be pretty hard to find a place to live. Could you live on the remainder of that $288 even if you were single?

Representative Longley. I think you are missing the point, Mr. Stark. The point I am making is, first of all, it is not the issue of the minimum wage, the issue is take-home pay.

Representative Stark. That is what we just were talking about, $288. How are you going to live on it?

Representative Longley. Okay. And explain to me why we should be putting a 25 percent tax burden on the minimum wage, and let me also interject --

Representative Stark. How are you going to live in your District with this much left? Do you think it can be done, Mr. Longley?

Representative Longley. No, of course not.

Representative Stark. But you are willing to turn your back on those 12,000 people in your District and not help them out. Is that what you are telling me?

Representative Longley. That is a terrible insinuation.

Representative Stark. No, it is the exact -- you are right, it's terrible, but it is one that you are playing into.

Representative Longley. We have had two Cabinet officers nominated who couldn't figure out the wage and withholding system and as a result gave up their nomination, and I find hundreds of small business people in my District that would love to create jobs. But look at this mess, this morass of taxes and regulations, the nine different taxes, the paperwork that is involved in it. And they tell me, they say, look. It's not worth the hassle to create a job. And what I am getting at -- in fact. Hardly a day went by last year --

Representative Stark. I'm talking about the people that are already working. I am talking about the bright people in your District. Mr. Longley. Who could count to 20 --

Representative Longley. Hardly a day went by last year that I didn't find -- I would appreciate a chance to finish my statement.

Representative Stark. You finished your statement when you turned your back on the people in your District and said you didn't care whether or not --

Representative Longley. Hardly a day went by last year that I didn't meet an individual who at one point had employed 15 or 20 people but had reached the point that the tax burden, the paperwork burden, the regulatory burden, was not worth it and --

Representative Stark. What about the burden of living on $288 a month and trying to get health insurance and live in your District? Don't you care about that burden for the poor people in your District who can't provide education and clothing for their children and health insurance? What about them, Mr. Longley?

Representative Longley. Then why is government taking a dollar an hour out of the minimum wage?

Representative Stark. Mr. Longley, what about the poor people in your District? Don't you care? Do you only care about these rich employers in your District, the Bath Ironworks? Those folks aren't hurting, are they?

Representative Longley. They are all hurting, and they are paying a far higher percentage of their wages in taxes than anyone appreciates.

Representative Stark. They ain't living in those 11,000 units, Mr. Longley.

Representative Saxton. Mr. Stark's time has expired, and the election isn't for two years.

Representative Stark. No time like the present, Mr. Chairman.

Representative Saxton. The gentleman from New York, Mr. Quinn.

Representative Quinn. Thank you, Mr. Chairman.

As a fellow New Yorker, Mr. Owens, I from the western end of the State and you from downstate, more I guess a philosophical question than specifics about how many households and what the census was in our Districts last time: Do you think this whole minimum wage question -- when we talk about raising it by 90 cents over two years -- affects anybody else in the workplace? And what I mean by that is, for example, whether it is a private business, whether it is the McDonalds, whether it is a municipal situation.

I used to be a town supervisor in Hamburg, New York, in upstate New York. We had four or five hundred employees. When we, the Government, talk about raising the minimum wage, do you think that adjustment affects any other wages in the workplace, whether it is the Bethlehem Steel plant in their situation, whether it happens to be a government municipal worker, school districts, towns, cities, villages, those kinds of things? And I don't know your background before we came here, but if we start to talk about that minimum wage, do you think that affects anybody else in the workplace?

Representative Owens. Sure, it does.

My background is that I served eight years in the New York State Senate and six years as a commissioner in New York City.

Representative Quinn. Okay.

Representative Owens. It affects everybody in terms of bargaining, it establishes a standard, and people, the majority of workers, are making higher than the minimum wage already, but they use a raise in the minimum wage to bargain for higher wages, and, no doubt about it, it affects the rest of the economy including the municipalities and the state in terms of income taxes since all of the state and municipalities will have to pay higher wages themselves.

The overwhelming majority of workers are not state and government workers, they are private workers, and the increase in their taxes means that they will pay -- increase in their salaries means they may pay more taxes, and they certainly will be less prone to ask for public assistance for food stamps and for other public assistance that is a drain on the Treasury.

So it has a positive impact, in my opinion, in many ways. It has a positive impact.

Representative Quinn. And I agree. I think that is exactly what happens. So, in other words, we would agree that minimum wage boost would take the rest of the employees in any system, whether it is the system Mr. Stark explained as an example or any one of ours, and as you in the Commission in New York City, I in a town government, the rest of them would go up?

Representative Owens. The rest of them would go up under normal circumstances, yes. There are other things that take place that may change that. Wages are stagnating for other reasons now. Under no conditions are they going up in certain situations.

Representative Quinn. But you think a raise in the minimum wage in a system would cause the rest of the wages to go up over a period of time whenever the collective bargaining agreement came up the next time around or not.

Representative Owens. It does tend to do that, yes.

Representative Quinn. So I think one of the things you need to keep in mind, or we do, is that when we are talking about the minimum wage and we are talking about X number of employees in any system making more money, that we are not only talking about affecting those people, I think as both of us would agree, we are talking about lots of other folks.

Representative Owens. We are also talking about increasing the consumer market which will create more jobs. You know, when Henry Ford was approached about higher wages, the response was, you know, I want workers who can buy my cars, and the outcome was a very good one.

Representative Quinn. Sure. Sure.

Thank you. I think we agree on that point.

Thank you, Mr. Chairman.

Representative Saxton. I thank the gentleman.

With the consent of the other Members of the Committee, what I would like to do at this point is to move on to the next panel. I know that your schedules are busy, and I know that our next group of panelists also have busy schedules and some have to leave. So we thank you very much for being here with us this morning. We have enjoyed both of your testimonies, and we know that there are different points of view and that feelings run high on this issue. So we thank you for being with us and sharing your thoughts and feelings with us.

Representative Longley. Thank you, Mr. Chairman.

Representative Owens. Thank you, Mr. Chairman.

Representative Saxton. Will the next set of panelists please come forward? Herman Cain of Godfather's Pizza; Charles Fuller of the Off Campus Bookstore, Grant Maloy of Gabriella's Growers; and Audrey Tayse Haynes, executive director of the Business and Professional Women.

Representative Mfume. Mr. Chairman.

Representative Saxton. Yes?

OPENING STATEMENT OF REPRESENTATIVE KWEISI MFUME

Representative Mfume. Mr. Chairman, some of us couldn't be here at the start of the meeting because of a Democratic Caucus in which the President is appearing this morning. As such, I want to ask unanimous consent if I might have my opening statement submitted as part of the formal record.

Representative Saxton. Without objection. Thank you very much.

Representative Mfume. Thank you very much.

[The prepared statement of Representative Mfume and the working paper, *A Gender Analysis of Labor Market Policies* appear in the Submissions for the Record.]

Representative Saxton. Mr. Cain, we know that you have to leave early, and what we are going to do here is to hear from Mr. Cain and then we will pause so that we can ask questions of Mr. Cain, and he does have to leave, and so we thank you all for being here.

Mr. Cain, we are anxious to hear your opening statement. We know that you are a successful businessman. We know that you employ a large number of young people and minimum wage earners or potential minimum wage earners. We thank you for being here, and we are anxious to hear your testimony.

PANEL II

STATEMENT OF HERMAN CAIN, CHIEF EXECUTIVE OFFICER, GODFATHER'S PIZZA, INC.

Mr. Cain. Thank you, Mr. Chairman. I would like to thank you and the other Members of the Committee for inviting me to make some comments on this issue, and for those of you who may not be familiar with me, I am Herman Cain, president and chief executive officer of Godfather's Pizza, Incorporated, based in Omaha, Nebraska. I am also president of the National Restaurant Association which is the leading trade group for the over 740,000 restaurant and food service entities in this country.

Our industry includes everything from fast food restaurants to mom-and-pop restaurants to fine dining, family-run restaurants. We are an industry dominated by small businesses, and we employ a diverse work force of over nine million people. Our employees are white, African American, Asian American, Hispanic American, and more. We expect to employ over the next 10 years, 12.5 million people, which is a three million person increase over the current employment of our industry. This is with the fastest category of jobs in terms of growth, being in the area of restaurant and food service managers, many of which are entry-level workers today.

More than 30 percent of Americans under the age of 35 had their first job in the restaurant industry. Restaurants offer an important boost into the job market for millions as well as a clearly defined career path for those willing to work hard and stay in the business.

Now there are numerous reasons why I firmly believe a minimum wage increase is attacking the wrong problem, but time only allows me to address three of them. First of all, mandated-wage increases reduce entry-level job opportunities. These starting jobs evolve into productive and rewarding careers for millions of people who may have been careerists or for many people who may not have had another opportunity to obtain a career.

A few weeks ago a colleague of mine from the State of Oregon told me about a homeless, 17-year-old, scared kid who had been arrested. This was back in the eighties. He gave this teenager a job chopping lettuce, deveining shrimp, and sweeping floors in his restaurant. He is now the executive chef at that restaurant. But the job that brought him into the business no longer exists, because today Oregon has a much higher minimum wage and now my colleague buys lettuce already chopped from an automated facility.

In my own business, Godfather's Pizza -- and I might add that CEOs do eat pizza, burgers, and chicken, and we do buy all of the same products that all of the American consumers buy -- in my restaurant one of the main ingredients obviously is cheese, and in my restaurant we grate that cheese on a daily basis because of the quality standards that we have established. Now the cost to grate the cheese in the restaurant is lower than it is to grate that cheese with an automated facility off-site. As we increase the cost of labor in the restaurant, as pointed out earlier, pretty soon the cost to grate that cheese with an automated facility will simply force me as a businessman to eliminate some jobs that otherwise would be available to young people and people who may not have any other alternative for employment. When you make it more expensive to hire people who lack basic work skills and experience, you risk shutting them out of the work force.

My second point: A minimum wage increase jeopardizes existing jobs by threatening the businesses or business units that may be marginally profitable. When you raise the cost of doing business for many thousands of businesses that are barely making it -- and there are thousands of small businesses that are just barely making it -- you risk shutting their doors permanently.

In my case at Godfather's Pizza, Incorporated, we have nearly 150 company-owned and operated units. Admittedly, a few of them are either marginally profitable or not profitable at all, and when you have some marginally profitable units you scrutinize every penny. Can 90 cents an hour close those units down? Maybe. Not by itself, but it could since labor accounts for 30 percent of my operating expenses, second only to food costs, and a mandated wage increase is one more factor that could tip the balance on closing down those units.

The other factor is that a mandated wage increase triggers wage inflation due to the rippling effect throughout the wage spectrum in a business, like increases in payroll, related FICA taxes.

Now some people would say just raise your prices. It doesn't work that way. In a competitive market, that is the fastest way to drive away customers with limited discretionary income to begin with. Ultimately this could close a business that is on the edge, and in my company's case you are talking about 20 to 25 jobs.

My third point: A minimum wage increase is an ineffective way to raise someone out of poverty. Most minimum wage earners are part-time workers under age 25, mostly first-time workers, students, people holding down second jobs or supplementing the income of their household's primary earner. In my restaurants, for example, nine out of 10 of my hourly employees choose to work less than 35 hours a week even though full-time work is available. These are not the people being targeted for help. Policymakers from all sides of the political spectrum say minimum wage increases cannot effectively target the working poor. By shooting wide and hoping to hit something, you are taking a gamble with harmful side effects. The best way to lift the family out of poverty is to get people into the job market and give them a chance to acquire skills and to advance.

I think of my father who worked three jobs until he was making enough money to cut back to two jobs and who kept going until his skills allowed him to support us on one job. Yes, he was an hourly worker. Now from my father's experiences I learned some very valuable lessons about life. I was not born chief executive officer of Godfather's Pizza, I had to work at it just like my father.

Now I have listed three main reasons why I believe minimum wage increase attacks the wrong problem. There are others, but I am not going to address them because they have been cited and pointed out already in the Chairman's opening comments, but a range of experts from the thinkers at the think tanks to the social workers at local welfare agencies recognize that some people lack the skills to make them competitive for entry-level employment. That is why the Federal Government spends billions of dollars on job training and used to provide targeted jobs tax credits which encouraged businesses to hire employees who typically have a hard time gaining a foothold in the job market. It is why President Clinton and Congress sets up empowerment zones to get businesses to hire in impoverished areas. These programs rightly recognize that some workers may be overlooked if it gets too expensive for a business to hire them.

Right now we have more than four million people earning the minimum wage; 7.8 million people collect unemployment and nine million adults receive welfare payments. I ask you to tackle the right problem first. Focus on creating more jobs, not on raising the cost of entry-level employment, not on eliminating existing jobs, and not on taking away the opportunity for people to determine their own future if they get a chance. A minimum wage increase doesn't attack the right problem, and I urge you to reject it.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Cain appears in the Submissions for the Record.]

Representative Saxton. We thank you, Mr. Cain, for your very articulate statement to us.

Let me just say before we begin questioning, Mr. Cain has to leave at 11 o'clock, so we have about 23 or 24 minutes to spend with Mr. Cain. Secretary Reich then will arrive, we are told, at noon, and so we will have from 11:00 to 12:00 to spend with these three very kind folks. So with that in mind, if everyone would limit their questions for Mr. Cain so that we can get to as many Members of the panel to ask questions as possible.

Mr. Quinn.

Representative Quinn. Thank you, Mr. Chairman, and, Mr. Cain, thanks for the enlightening remarks as well.

Mr. Cain. Thank you.

Representative Quinn. Your example of the colleague of yours who hired someone at entry level and had that person move up the ranks is probably the dream of all folks who take the entry-level position everywhere.

Mr. Cain. Absolutely.

Representative Quinn. Some of us in government take an entry-level job as a town councilman somewhere and end up in the United States Capital.

Related to that point -- and I don't want to take up too much time so that everybody gets a chance for a question -- is it your opinion -- or let me ask it this way. How long an entry-level position, how long will an employee stay at that as their chance for advancement in your situation, or if somebody comes in at minimum wage and we look through those statistics and we say that we are going to make this much a month, this much a year, by the time we take out living expenses, I have only this much money left -- is there a chance for advancement?

Mr. Cain. The answer is, absolutely yes. Not a study but actual numbers show that in my business and in the restaurant industry most people who start at minimum wage who have very little skills or maybe no work opportunity at all, they are not on minimum wage more than a year, and in fact after a year most of them are well above the minimum wage because they have acquired some skills, they have demonstrated dependability, they have demonstrated a certain level of productivity within that unit, and one of the neat things, I believe, about our industry is that we are one of the few industries where you can take a person who has little or no skill and provide training and provide those incremental opportunities based upon the amount of productivity that they bring to the party after they get into the work force.

Representative Quinn. Thank you very much.

And second, a follow-up question. If this minimum wage is increased, if we make a move in that direction, do you think some businesses might replace full-time employees with part-time?

Mr. Cain. I don't think it would happen right away, but I do believe that would happen. I think the biggest danger is those thousands of businesses that are operating on the edge, and, as an example, in my case, if one unit closes that is currently unprofitable while we are trying to make it more productive, we are trying to make it profitable, if one unit closes you are talking 20 to 25 jobs. So I don't think it is just a straight trade-off of going with more part-time people and less full-time.

Representative Quinn. Very good.

Thanks very much, Mr. Chairman.

Representative Saxton. Thank you.

Mr. Stark.

Representative Stark. Thank you, Mr. Chairman.

Mr. Cain, you have said that the hike in the minimum wage would be harmful to your business, but if we look at the history of Godfather's we find that it was closing units in the 80s substantially before the hike in the 1990 and 1991 minimum wage, and then after the increase in the minimum wage in April of 1990 and April of 1991 the number of Godfather's franchises began to climb. Now doesn't this suggest that a hike in the minimum wage might not be quite as damaging as you suggest to us?

Mr. Cain. Unfortunately, Mr. Stark, your facts are totally incorrect for the wrong reasons. Understanding the history of Godfather's, one recognizes that the company went through its growth period from 1973 to 1983. When the market and the industry got much more competitive and Godfather's experienced lots of turnover in its leadership, it became very noncompetitive and, as a result, had to begin to shut units. So those numbers have absolutely nothing to do with a correlation with the minimum wage but, rather, with the business facts as they relate to the competitiveness of the marketplace.

Representative Stark. Okay. Then the figures that you cite that would tie it to the minimum wage come from the Employment Policy Institute. Now that is an institute that was created by the Restaurant Association. I guess you are currently president of it.

Mr. Cain. We did not create that --

Representative Stark. It was organized by a Richard Berman whose lobbying efforts on behalf of the restaurant industry -- I guess he is a lobbyist for Godfather's --

Mr. Cain. No, he is not, Mr. Stark.

Representative Stark. He organized it.

The New York Times reported on Monday that the Ethics Committee will be examining the ties between Mr. Gingrich and the Employment Policy Institute. There was a quote from a memo, a GOPAC memo, that said there was a real possibility of $20,000-25,000 if a particular course could incorporate some of the ideas mentioned in the *Journal of Labor Research* and the Institute did contribute $25,000, and Mr. Gingrich did weave these ideas from that article about low-level jobs in restaurants not necessarily being dead-end jobs.

Now given this history of a lobbyist for Godfather's and the restaurant industry organizing a supposedly independent research institute that kicked in $25,000 to get Mr. Gingrich to parade their beliefs in a so-called independent course, don't you think that the minimum wage analysis coming out of that Employment Policy Institute ought to be viewed as a little slanted to achieve the objectives of the anti-minimum wage restaurant owners rather than the objective search for the truth?

Mr. Cain. Mr. Stark, with all due respect, I would appreciate it if you would use the appropriate information. Mr. Berman is not a lobbyist for Godfather's. The Restaurant Association did not start that Institute.

Representative Stark. I have his registration here. In 1988 I have got the identification number 04340002, Richard B. Berman, esquire. Godfather's Pizza, Incorporated, is his employer for the food service industry.

Representative Manzullo. Would the gentleman yield?

Would the gentleman yield?

Would the gentleman yield?

Representative Stark. Excuse me. I will not.

Representative Manzullo. Thank you for not yielding.

Representative Stark. I just wanted to ask Mr. Cain if you still don't think that Mr. Berman was a lobbyist for Godfather's. Would you like to see a copy of this?

Mr. Cain. I do not need to see a copy of it, Mr. Stark. My point is, that has nothing to do with my remarks. That question about Mr. Berman's affiliation has nothing to do with the facts that I present and the facts that I live with and see every day trying to be in business. I did not come prepared to discuss Mr. Berman's connections or ties with any institute, with Mr. Gingrich, or any other political figure, I came to present my case in terms of the impact of minimum wage based upon what I live with each and every day.

Representative Stark. But you did quote the Employment Policy Institute foundation in your testimony, did you not, Mr. Cain?

Mr. Cain. Yes, I did.

Representative Stark. As a basis for suggesting that we would put welfare mothers at a disadvantage.

Mr. Cain. That is true.

Representative Stark. And that testimony was the Institute that Mr. Berman runs. Is that correct?

Mr. Cain. That is correct.

Representative Stark. Okay. Thank you very much.

Representative Saxton. Mr. Sanford.

Representative Sanford. I am going to defer to Mr. Manzullo.

Representative Saxton. Mr. Manzullo.

OPENING STATEMENT OF REPRESENTATIVE DONALD MANZULLO

Representative Manzullo. I am not going to ask you any questions other than what is at stake here, and I think it is improper to use this as a forum for a fishing expedition. We might as well talk about Whitewater or something else.

Mr. Cain, my family was raised in the pizza business also, and I can commiserate with the background. I started working in the family restaurant business when I was five years old, peeling potatoes, and know full well the impact of the marginal profits involved in the restaurant business, and to those who say just raise your prices, could you tell us, the Members of Congress here, who would be affected most by increasing prices of basic consumer goods.

Mr. Cain. By increasing the price of basic consumer goods the average consumer would be impacted the most, because if you can pass along some of the prices -- and it is unlikely that you would be able to pass along a lot of it -- the consumer, the public, Joe Public, would pay those increases and would pay for it.

If you look at the savings rate of Americans, back in 1960 it was 8 percent of gross domestic product (GDP). Today it is 1.7 percent of GDP. What I am saying is, the American consumer is already strained and there is not a lot of room to continue to pay higher prices for typical goods.

Representative Manzullo. Then it would be the person who was already earning minimum wage who would be most impacted by an increase in his basic consumer goods. Is that correct?

Mr. Cain. Absolutely, because the person earning minimum wage, if those prices go up, they have got to pay for those same goods with, you know, incrementally less dollars.

Representative Manzullo. Thank you.

Representative Saxton: The gentleman from Virginia.

OPENING STATEMENT OF SENATOR CHARLES ROBB

Senator Robb. Thank you, Mr. Chairman.

Mr. Cain, we thank you for being with us this morning. We have enjoyed watching you in recent weeks and months not only on this topic but on others that related to some of the concerns about the impact of actions of the Federal Government and hope you have been able to sell some additional pizza during that period of time because of your increased visibility.

Let me just ask you a question in your -- perhaps more in your capacity as chairman of the National Restaurant Association than in your capacity as chairman and CEO of Godfather's Pizza, because restaurant owners were very much concerned about some of the impact of some of the things that were being considered in health care reform and continue to be a major concern because you do provide so many entry-level opportunities.

About three or four years ago when we were last considering an increase in the minimum wage, comparisons were made to the time that minimum wage was instituted and where the economy was and the effect of inflation at that particular time. Many of the same arguments that we hear today were argued and debated during that period of time.

Do you have statistical information that would indicate the impact of that particular action that was taken by the Congress to raise the minimum wage then and why it would be significantly different if, statistically, the inflation would cause the current proposed increase in the minimum wage to track in the same economic sense that the previous action took?

Mr. Cain. I do not have that statistical information for the following reason. It is difficult to isolate one factor out of all of the multiple factors that impact the total economic spectrum and all of the factors that impact how a business will perform today and in the future. So to be able to say that minimum wage alone caused certain economic consequences is really an impossibility.

Senator Robb. Understanding, Mr. Cain, that is difficult, to isolate any particular factor, but has the increase in the minimum wage that took place then had a demonstrable diminution in the availability of entry-level jobs during the intervening period even though it may be tied to other factors?

Mr. Cain. When you factor out the growth in the industry, the answer is yes, it has. Do I have those statistics that I can succinctly present to you at this moment? No, I do not.

Senator Robb. Mr. Chairman, might I ask that, if Mr. Cain in his capacity as chairman of the National Restaurant Association could provide those kinds of figures, I think that they would be helpful to many of the Members in trying to sort out the fact, and perhaps -- I don't like to call any unsubstantiated claims fiction but those less provable facts that have been put into this particular argument, and I think the National Restaurant Association would have a particularly relevant base for it, if he could.

Thank you, Mr. Cain.

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Representative Saxton. Thank you, Mr. Robb.

Mr. Mfume.

Representative Mfume. Thank you very much, Mr. Chairman.

Mr. Cain, I would like to, if I can, go back over the lay of the land and try to establish some facts as a basis for understanding or getting a better understanding of the testimony that you gave us and some of the things that you cited today.

Is it true that not only as CEO of Godfather's you are, as the gentleman from Virginia just suggested, this year's president of the National Restaurant Association?

Mr. Cain. Yes.

Representative Mfume. And according to a news report, last year you helped to organize a restaurant association program called Bite Back. Is that true?

Mr. Cain. Yes.

Representative Mfume. Bite Back has an 800 number. It gives updates on Federal legislation.

Mr. Cain. Yes.

Representative Mfume. Is it fair to say, as some have done, that the restaurant industry employs more minimum wage and near minimum wage employees than most other industries?

Mr. Cain. That is correct.

Representative Mfume. And that the restaurant association has been closely monitoring the political activity on the minimum wage?

Mr. Cain. Yes.

Representative Mfume. Now, if I might, I would like to go back to Mr. Stark's line of questioning just to get some clarity here. Your testimony today to some extent did rely on the Employment Policy Institute with references that you made concerning the welfare mothers.

Mr. Cain. Yes, it did.

Representative Mfume. That institute, as the gentleman indicated, is directed by Mr. Berman, who registered as a lobbyist for several restaurant owners and, according to at least the papers that the gentleman from California has, did in fact serve as a lobbyist for you in 1989, or until late 1989.

Mr. Cain. If you have documentation that says so, then the answer is yes. In 1989 when Mr. Berman was first going into business for himself, Godfather's could have been one of his clients, but I don't recall offhand.

Representative Mfume. Godfather's was one of his clients, and the tenure ended, I think, after a year relationship with Godfather's. The gentleman has the records. I saw them earlier, and I don't know if that is correct, but I assume that it ended in 1989 but he was registered as a lobbyist during the time that you headed Godfather's.

According to a publication -- this publication is September 23, 1992; it is called *Restaurants and Institutions* -- a group of restaurant chain owners were meeting with Mr. Berman in March of 1991 when they decided to create the Employment Policy Institute. I am not going to ask you whether that was true or not because I assume you were not part of that meeting. Is that true?

Mr. Cain. That is true.

Representative Mfume. Would it be fair, as some have suggested, then to say, or is it fair for many to believe as they do, that the Employment Policy Institute was in fact the brainchild of the restaurant owners?

Mr. Cain. I would say that it is true that restaurant owners participated in developing that organization, yes.

Representative Mfume. And do many of your constituents as head of the National Restaurant Association make financial contributions to the Employment Institute?

Mr. Cain. Yes, they do.

Representative Mfume. Mr. Chairman, I thank you. I yield back the balance of my time.

Representative Saxton. Thank you, Mr. Mfume.

Senator Kennedy.

OPENING STATEMENT OF SENATOR EDWARD M. KENNEDY

Senator Kennedy. Thank you, Mr. Chairman.

Mr. Cain, I respect the fact that you are opposed to the increase in the minimum wage, and I respect the fact that the National Restaurant Association has had that position. They have had it as long as I have been in the United States Senate, as long as there has been an association. For more than 30 or 40 years they have been opposed to any increase in the minimum wage. That has been their position. And I think the points have been raised here about the Restaurant Association supporting the Employment Policy Institute. We are going to hear from Peter Brandon and Lowell Taylor as economists who have been supported by the Restaurant Association in terms of their studies as well. So you are entitled certainly to have it, and I understand it. I respect it. I differ with you.

I think it is fair enough, you know, when we talk about the increases in the minimum wage -- you know, it is fair enough also to talk about what is happening to workers in terms of costs and also what has been happening to their CEOs.

If you look up here, you see the increases of the CEO's wages have been going on up from 1981 -- look up in here -- 1990 to 1991, the rise of the CEOs in Pepsico, McDonalds, have gone up right through the roof. McDonalds earned a profit of 14.6 percent of a billion -- one hundred million in 1993, an increase of 11 percent in 1983; they had an increase; and the CEOs have gone up about 300 percent, 300 or 400 percent.

So there is never any problem in adding the cost to the business when it comes to the CEOs, and it is never a problem in terms of the profits, and I am delighted that they have got good profits, and I think, with the magnitude of the responsibilities, I have nothing against those CEOs getting a good wage. I think what I do have is the fact that it is coming out of the backs of men and women who are trying to play by the rules, work 40 hours a week, 52 weeks of the year, and try to bring up kids. I have some problems with that. And I want to just mention in looking at--

Mr. Cain. Senator Kennedy. Excuse me, sir. With all due respect, is that your question?

Senator Kennedy. Not yet, no. You will get the question right now. You are going to get it right now.

I want to try and put in perspective the value of your testimony in opposition to the increase in the minimum wage based upon the historic position that has been taken by the Restaurant Association and look what the facts have been.

Starting in 1969 -- in 1949 the Congress raised the minimum wage from 40 to 75 cents. Following the 87 percent increase in minimum wage, overall unemployment went from 5.9 in 1949 to 5.3 in 1950. In 1955, the next time we increased minimum wage, raised the wage from 75 cents to a dollar an hour, a 33 percent increase. The unemployment rate fell from 4.4 percent to 4.1 percent. In 1961 to 1963, minimum wage from a dollar to a \$1.15 in 1061 to \$1.25 in 1963. Unemployment rate fell from 6.7 to 5.5, and the number of people employed increased six times that amount. 1967, next time increase; Congress raised 15 cents to \$1.40; the year after, to \$1.60; the unemployment rate fell from 3.8 percent to 3.6 percent; 1968, the number employed increased by over three million workers; 1974 to 1976, Congress increased minimum wage in 1964 to \$2.10; in 1975 to \$2.30.

Representative Saxton. Senator, excuse me.

Senator Kennedy. I will have the question in just one minute, Mr. Chairman.

Representative Saxton. The gentleman's time has expired.

Senator Kennedy. Well, if I could just finish my final point here to ask the question, if I could. The bottom point being, in each and every time that the minimum wage has been increased the kind of economic position that you take about the decline in wages, the decline in unemployment, just hasn't been so. Why should we give your testimony today any greater weight today given the fact that the Restaurant Association and its position since the time that it has taken a position in opposition to minimum wage has been wrong every single time?

Mr. Cain. I will try and be brief, Mr. Chairman.

I will offer two reasons, Senator Kennedy. Number one, the businesses that go away because they can't make it don't get captured in these studies or of the economy that goes on. They simply go bankrupt and they go away.

Secondly, if you look at the restaurant industry, McDonalds and Pepsico represent two business entities. There are 740,000 restaurant entities in this country. Over 60 percent of them are family-owned, individually operated businesses that do not have that magnitude of numbers.

And the third response I would offer to your comments, Senator, is that if you ask any economist, any recognized economist, if you can correlate movement in total jobs or movement in the economy with any one single factor, I believe that overwhelmingly the answer would be no.

Senator Kennedy. Well, then, this is what you are singling out, one factor, the minimum wage.

[The prepared statement of Senator Kennedy appears in the Submissions for the Record.]

Representative Saxton. Senator, I'm sorry, your time has expired.

Mr. Cain, I want to thank you for being here, but before we let you go entirely I would just like to make two points. The EPI study that was referred to, I believe, is one of a number of studies that have been done with regard to the situation regarding the minimum wage and welfare mothers. In fact, I have a list of eight such studies which are very similar to the one that EPI did, and I just wanted to point that out.

Secondly, I would just like to ask you, Mr. Cain, how many of your initial entry-level employees are young people?

Mr. Cain. Seventy-five percent of them are young people.

Representative Saxton. Do they generally start at the minimum wage?

Mr. Cain. Most of them don't even start at the minimum wage. Many of them, because of supply and demand, we pay them more than the minimum wage depending upon how many hours they are able to work, what their status is, whether they are students, part-time, or whatever.

Representative Saxton. So there are many people who come to work for you who don't actually earn the minimum wage ever.

Mr. Cain. Absolutely.

Representative Saxton. They start above the minimum wage.

Mr. Cain. Yes.

Representative Saxton. And how long does it take in the restaurant business for one to get a raise, on average?

Mr. Cain. On average, I would say three to six months. They would get a raise based upon their dependability and their productivity and all these other factors.

Representative Saxton. So it behooves you to increase salaries of minimum wage earners or entry-level people for purposes of good business management.

Mr. Cain. It certainly does, because of competitive reasons, yes.

Representative Saxton. And how long would you say a young person who typically comes to work in one of your Godfather's restaurants stays with you?

Mr. Cain. A young person typically stays, on average, six to 12 months. We have very high turnover in our industry, and that compounds the problem of that entry-level job, but the percentage of people who stay longer and make a career out of our industry, that is when we are far, far from minimum wage.

Representative Saxton. How many minorities would you say work at Godfather's Pizza?

Mr. Cain. Approximately 12 percent.

Representative Saxton. Approximately 12 percent.

Mr. Cain. Yes.

Representative Saxton. And would you refer to your business as a stepping stone for many young people?

Mr. Cain. It is a stepping stone, and it is a way into the workforce.

Representative Saxton. What about the education level of the average or most people who come seeking a job at your establishment and who are employed?

Mr. Cain. The typical individual that seeks employment either in my establishment or in the restaurant industry, on average, has a high school education or less. We get a disproportionate number of people who barely have a high school education and a lot who don't have that, and so we provide the training to bridge the gap between the skills that they bring and the skills that they need to function productively.

Representative Saxton. And do you find Godfather's hiring young people who otherwise would be unemployed and perhaps on the streets and perhaps in trouble and perhaps not knowing what to do with their lives?

Mr. Cain. Absolutely. We can cite thousands of cases such as that. Thousands of cases.

Representative Saxton. What you saïd earlier was that at least in your case and restaurant's and in small businesses generally you believe that increasing the minimum wage provides fewer opportunities for the kinds of people that you just described to me.

Mr. Cain. Absolutely.

Representative Saxton. Thank you.

Mr. Cain, thank you for being with us today. I don't believe there are any other questions at this time. It is 11:03. We promised to have you out of here at 11:00, and we thank you for your indulgence and for being with us today.

Mr. Cain. Thank you for the opportunity.

Representative Saxton. We will now turn to the other panelists. I was incorrect earlier. We do not have a full hour. We will be able to spend about 30 to 35 minutes with you, and so we will start in any order. I guess we will start from left to right with Mr. Maloy. Thank you for being with us. We appreciate it very much.

Mr. Maloy is with Gabriella Growers. I take it that is a nursery organization.

Mr. Maloy. Yes, Mr. Chairman. A wholesale foliage nursery, and we grow house plants that are shipped throughout the country.

Representative Saxton. Thank you. We are anxious to hear your testimony, and you may proceed.

STATEMENT OF GRANT MALOY, OWNER, GABRIELLA GROWERS

Mr. Maloy. Okay. Thank you, Chairman and fellow Committeemen.

I believe that I define the "small" in small business. I started my business part time in 1987 after I got out of school. I worked at it full-time beginning in 1990. I have one employee who works part-time and currently earns $5.15 per hour. My wife also helps me out, and last year our sales totaled $60,000.

I feel that I represent many of the new and struggling businesses that exist out there, and these businesses, some of them are on the verge of expanding and some are on the verge of going out of business, watching very closely what this Committee and what Congress does because that affects their future. Unfortunately, so many decisions Congress has made in the past have been detrimental to small business, and I believe this is just one more proposal here that is just one more straw on the camel's back.

I oppose this because, as I said, when you graduate from high school and you go on to college and you get out and you enter this work force and you enter the economy, if you dare to create something, start a small business, you will face hurdles and roadblocks every step of the way. It starts out at the local, then the state, and then the Federal. You have fees, taxes, regulations, business inspectors coming by hassling you, and it is one thing after another. This minimum wage is just one more roadblock.

I oppose it because it does not make economic sense. If an employee cannot produce $4.15 or $5.15 per hour the employer can't afford to pay them that, and these laws of economics are as strong as the laws of physics. If you try to bend them, you might fool some of the people but in the end you are going to end up with disaster, and I think that this minimum wage has shown some of that, and, in fact, if you take a look at the high unemployment and the low-skilled and the underemployed, those folks who are living in the inner cities right now, their rates of unemployment are about five times that of the national average, and it is not necessarily because they are bad people, it is just, they don't have the skills to enter the work force at the current minimum wage, and because of this policy that is where they remain.

I oppose this policy because when the marketplace is given the chance, it works. If you take a look at those who do have skills, they are earning in excess of the minimum wage right now, and that is the great thing about the free market. The more you know, the better skills you have, the more money you are going to make. By the way, that is not the government forcing us to pay higher than minimum wage, that is the free market working.

This policy I think is the ultimate in hypocrisy. Congress sets an unfunded mandate on to business. They expect us to pay a wage which many of us don't even earn ourselves. I know when I began and I take all the hours I was working in my business and divide it out by the money I had left over, it came to about two dollars per hour. Now I am not complaining because I was sacrificing, I was working hard investing in the business, working long hours, and I knew that down the road if everything worked out I would be rewarded for my hard work. But it shows the hypocrisy where government sets a mandate and then expects others to pay for it.

I oppose this policy because it creates a strong centralized government and it is government micro management of businesses, and if you take a look at the centralized governments that exist, they always end up with major problems. How is it possible for this government in Washington, D.C., to know what is best for my business in Florida and businesses across the country where profit levels are different for various industries, where economic levels are different from region to region? I promote that it is impossible for this one government to know.

If this policy did work, I would say we should not be bickering over a 90 cent per hour raise, we should look at raising it by $10 or $50 per hour and then mandate that businesses hire everybody that is unemployed, and if that happened then, according to many people, unemployment would be solved, prosperity would be up for everybody, but apparently that proposition hasn't been made because we know that businesses would be going belly up one after the other. So if this policy doesn't work on a big scale, why is it supposed to work on a small scale? I contend that the logic is flawed all the way through.

And I see that my time is up. I just think that the real problem here is not dickering around with the minimum wage, I think this policy that was created in the Depression era, has outlived its usefulness. The real problem is increasing prosperity, and that is only done by increasing productivity of everybody.

We need to remove these roadblocks on businesses, cut taxes, cut regulations, quit bashing businesses so much. We are not evil entities, we are there trying to do a good job and provide services, and the thing that helped me out the most -- and my closing comment -- when I think what helped me out the most starting my business, it was not the government, it was not the school, it was growing up in my dad's small business, watching him work hard for that American dream, and I saw what could happen if you work very hard, and I went into it myself, and I think unfortunately the American dream is vanishing for many people out there today.

I thank you for your time, and I would be happy to answer any questions.

[The prepared statement of Mr. Maloy appears in the Submissions for the Record.]

Representative Saxton. Thank you, Mr. Maloy. We are going to come back to you in a few minutes with questions.

We are going to move now to Mr. Charles Fuller who is the owner of the Off Campus Bookstore, or stores?

Mr. Fuller. Bookstores.

Representative Saxton. Bookstores.

And judging by the name of your business, I would suspect that you are in contact with some young, entry-level employees as well.

Mr. Fuller. Every day.

Representative Saxton. We are anxious to hear from you Mr. Fuller. You may proceed.

STATEMENT OF CHARLES FULLER, MANAGER, OFF CAMPUS BOOKSTORE

Mr. Fuller. Mr. Chairman, Members of the Committee, I would like to thank you for affording me the opportunity to participate in this great democracy in which we live. I am here today to voice my specific concerns about the impact on my business of the proposed increase in the minimum wage rate and to express briefly, if you will permit me, more general concerns about the principles at issue in this type of legislation.

My first job was at 15 working as a janitor in a bookstore. I was paid minimum wage by a small business owner who took his time and money to train me and give me my first work experience. It was there that I began my climb up the socioeconomic ladder. I now operate three private bookstores serving the faculty and student body of the University of Georgia. I am in competition both with the State of Georgia which operates its own bookstore on the campus as well as with a branch of a large national bookstore chain. Book prices are set by publishers and are controlled by the competitive nature of the business. I cannot raise my prices to offset the increased cost of labor resulting from this legislation nor do I have an effective way of reducing other overhead costs.

My employees are students from all walks of life struggling to put themselves through school. They are well motivated young people out to further their education and are glad to find part-time work with flexible hours and other benefits that directly affect their lives. I presently have four salaried employees, 18 hourly wage workers, and regularly hire an additional 50 to 75 minimum-wage workers at the beginning of each quarter. If the minimum wage rate is increased you will be voting a pay raise for my entire hourly staff without providing me a means of funding it.

If I am to be fair to the employees who have worked and earned raises above the minimum, I must increase their wage by the same proportion as the minimum increase. Unfortunately, I cannot afford to absorb this increase. If this Committee chooses to recommend the increase in the minimum wage, you will also be choosing the unemployment line for three of my hourly employees and 25 of my temporary workers.

The minimum wage is viewed by many in this country as a right to a particular lifestyle. Instead, it should be viewed as the first step of opportunity to a better life. Minimum wage is not a living wage and should not be represented to the American people as a living wage. Minimum wage is not a reflection of what a person is worth but should be a reflection of what the market will bear. As an employer, today's minimum wage allows me to hire unskilled or first-time workers and train them at a wage that is economically feasible. If you raise it, the wage will no longer be feasible and some of these jobs will be lost.

The sweatshop conditions of the 1930's that created the need for the minimum wage no longer exist. I believe that employers operating in a free market economy will pay labor a fair market rate. When I can no longer hire the quality of the employee that I desire for what I am paying, then, and only then, should I raise my wage rate. It should be the employer's choice brought about by the demands of the marketplace, not because it was mandated by the Government.

If this august Body truly wishes to raise the standard of living for entry-level-wage employees, the answer is simple. Fund it yourself by releasing all hourly employees from the burden of withholding taxes. This will increase the employee's check by as much as 20 percent and still allow employers to hire the number of employees that need to remain competitive.

I urge you to reject the minimum wage increase so that small businesses can continue to provide the same opportunities that I was afforded as a young worker.

Thanks very much.

[The prepared statement of Mr. Fuller appears in the Submissions for the Record.]

Representative Saxton. Thank you.

Ms. Audrey Haynes, from the Business and Professional Women organization, we are anxious to hear your testimony. You may proceed.

STATEMENT OF AUDREY TAYSE HAYNES, EXECUTIVE DIRECTOR, BUSINESS AND PROFESSIONAL WOMEN, USA

Ms. Haynes. Thank you. Good morning.

I'm Audrey Tayse Haynes, the executive director of Business and Professional Women/USA.. We are a nonpartisan organization representing 80,000 working women. We have 2,800 local organizations, and there is one in every congressional district. Business and Professional Women/USA is 76 years old and is dedicated to achieving economic equity for all women in the workplace. I also happen to be a small business owner. I own a restaurant in Kentucky.

Most of our members will be affected by an increase in the minimum wage. BPW members include business owners, corporate managers, professional and hourly workers. Because of this, our board of directors, which includes small business owners, and representatives from every State in the United States, overwhelmingly passed a resolution on Saturday February 4, 1995, to support an increase in the minimum wage to $5.15 an hour.

As business and professional women, we know all too well who work in low-income jobs. In fact, more than three out of every five workers earning the minimum wage or below are women. These women are individually striving to support their families, to avoid having to rely on the government for their next meal, yet the current minimum wage falls well short of enabling them to be self-sufficient.

While many say the Government has no place in setting a minimum wage, the free market should decide wages, we as business and professional women recognize, as does Congress, that the free market does not work the same way for women and ethnic minorities as it works for men. After all, Congress passed the 1963 Equal Pay Act and Title VII of the 1964 Civil Rights Act without which women would continue to be discriminated against in pay, in working conditions, and in hiring and promoting decisions. The government does have a proper role to play in preventing discrimination and ensuring equal treatment. Without a livable minimum wage standard, members of disadvantaged groups are likely to be forced to work for less and less.

As an organization with a significant constituency of small business owners, the last thing we would want to support is legislation leading to the decline of viable small businesses. Our members know that is not what will happen if you increase the minimum wage.

Joyce Draper is a BPW member and the owner of an Autobell Carwash Company in North Carolina. It is a business employing approximately 320 workers, about half of whom are high school and college students earning between $4.50 and $4.75 an hour and who would be directly affected by an increase in the minimum wage. However, Joyce Draper supports raising the minimum wage. Having been in business for 30 years she has had the experience of minimum wage increases and changes in our economy. A good business person looks at the labor market, at trends, and prepares for changes, says Ms. Draper. If this increase goes through, Joyce Draper will not respond to it by laying workers off or by not filling vacant positions. Primarily Joyce will offer smaller discounts to her large fleet accounts and possibly raise car wash rates 25 cents. Her philosophy is that you have to be fair to your employees or you are not going to keep them.

Margie Bryce echoes Joyce Draper's sentiments. Margie is the co-owner of the Annapolis, Maryland-based Hats In The Belfry. It is a six store retail chain in the mid-Atlantic region employing fewer than 50 workers. While all of her employees make above the minimum wage, several employees' wages are closely linked. If there is an increase in the minimum wage their income will go up as well. Margie Bryce will not decrease the size of her work force. "Are you really going to look at a job and decide it doesn't get done rather than pay a little bit more to get it done?", Bryce asks. In a retail business your business volume depends on your ability to serve your customers. Raising the minimum wage will not hurt that ability, it may even improve it if worker satisfaction increases.

Research shows that job loss is not the result of raising the minimum wage. Employers find alternate ways, as Draper and Bryce will, to offset any increase in their payroll. In studies done in Pennsylvania and New Jersey, Mississippi and North Carolina, and in Texas, no connection between increasing the minimum wage and job loss has been found. But keeping the minimum wage at its present level, which is 26 percent below the real purchasing power it had in the 1970s and 35 percent below its peak in 1968, would have dire repercussions. Our strapped social welfare system has and will continue to subsidize the wages of these workers.

Members of Congress and talk radio personalities are often heard complaining that people are unwilling to work, that they rely on the Government to take care of them, yet in a family of three with one worker the minimum wage places them well below the poverty level, rarely with any health or child care benefits. Even a 50-cent increase in the minimum wage can move 17 percent of the working poor above the poverty threshold. Imagine what 90 cents could accomplish.

Even with the introduction and expansion of the earned-income tax credit, which BPW applauds, a worker supporting a household of four will earn 25 percent below the poverty level. For a smaller household of three, the combination of the current minimum wage and the earned-income tax credit will not raise them out of poverty.

In closing, I want you to picture this: A single parent, typically a woman, the typical minimum wage earner works 40 hours a week and has two children. She earns $4.25 an hour working in a discount store as a clerk. She earns $182.26 per week after taxes and after she has received her earned-income tax credit. While she is working she needs child care. Let's say that one child is in school, the other child participates in an after-school program. The other child is being cared for in one of very few low-cost licensed child care centers available in her community. She pays $50 for 50 hours a week for child care. She pays an average of $65 a week to feed her family. She pays an average of $50 a week to clothe herself and her children, purchase personal and health care products, and pays for doctors visits. Fortunately, her family is healthy. She is also resourceful and found housing for $365 a month, or $85 a week, which includes utilities and telephone. Her transportation to and from work to the grocery averages $19 a week. This still leaves her about $87 in the hole. She cannot wait until the end of the year when she will receive the rest of her earned-income tax credit of $1,011 because she still is going to fall $1,329 short.

Representative Saxton. Ms. Haynes.

Ms. Haynes. Yes.

Representative Saxton. I am really sorry to interrupt, but if you could conclude we would appreciate it. We are well past the five-minute mark.

Ms. Haynes. Thank you.

If the minimum wage is to be the bare minimum that will bring this woman out of poverty, it is not working. BPW/USA supports an increase in the minimum wage, and we are not alone, three quarters of the American population agree with us, and in 1989 more than 90 percent of Congress agreed with us as you passed the last increase in the minimum wage, which was a bipartisan effort.

Thank you for the opportunity.

[The prepared statement of Ms. Haynes appears in the Submissions for the Record.]

Representative Saxton. Thank you very much. We appreciate having heard from you.

In order to expedite this process, I am going to pass and suggest to Mr. Stark that we have one questioner from each side, and then that will move us to the point where we can squeeze our final panel in before the Secretary arrives.

Mr. Ewing.

OPENING STATEMENT OF REPRESENTATIVE THOMAS EWING

Representative Ewing. Yes.

To the two gentlemen on the panel who oppose the minimum wage increase, do you find that most of the employees that your businesses hire are dependent on their wage as the head of household, or are they young people, students, people living at home with their parents?

Mr. Maloy. Well, in my business, like I said, normally I have one employee at a time, and all of them -- I live near a college -- all of them have been college students working their way through college. One went on to become a fireman. One is working at a television station now. These are beginning steps in their entry to the marketplace. So I have nobody working for me that is supporting a family on minimum wage.

Mr. Fuller. All of my employees are students. None of them are head of household.

Representative Ewing. Do these young people stay at the minimum wage the entire time they are with you generally?

Mr. Fuller. No, sir, mine do not.

Mr. Maloy. No.

Representative Ewing. Ms. Haynes, you talked about what Joyce Draper had done or would do. Does she pay the minimum wage now to her help?

Ms. Haynes. She starts most of her employees out at about $4.50, $4.75, some a little more. In my own restaurant we pay above the minimum wage. We start out at $5 and $5.25 an hour.

Representative Ewing. I guess the question I have and my problem with the minimum wage increase is, I realize you can't raise a family on the minimum wage, and hopefully a single mother would be getting child support or some other assistance -- she should be under our system if it is working right -- and not have the entire burden to pay out of minimum wage. Now I know that doesn't always happen, but that is the ideal.

Ms. Haynes. Sir, it only happens about 25 percent of the time.

Representative Ewing. And partly sometimes that is because the system fails, and partly sometimes because the mother refuses -- single mother refuses to go after that assistance that is out there.

But I guess my question is, if you are paying above the minimum wage and Joyce Draper is willing to pay above the minimum wage, I think that is wonderful, and I encourage you to do that, but do we want to eliminate from the work force those jobs which are available for students and, yes, maybe some jobs that the person only brings the skills to the job that warrant a minimum wage? Aren't we going to eliminate those jobs for students and people with less skills?

Ms. Haynes. No, sir, I don't believe so. When I was in college -- it's real nice and warm and fuzzy to talk about college students, that this is like a part-time income for them and wouldn't it be too bad to eliminate them when, indeed, three out of five workers, as I reported, are women, usually head of households, and so I don't think we can segment a small percentage of the people on minimum wage as college students.

After all, I grew up in a single family where my mother has always made minimum wage, she is an aide at a nursing home, and I will tell you, we would have been on welfare had I not been earning minimum wage in a restaurant in a job that I worked at growing up. So minimum wage has been very important to my family, and so I would say that it is not just extra money to go to the movies for a lot of other young people as well. It is certainly not for single moms.

Representative Ewing. Thank you, Mr. Chairman.

Representative Saxton. Thank you, Mr. Ewing.

Mr. Stark, or your designee.

Representative Stark. Senator Kennedy might like to inquire.

Senator Kennedy. I want to just thank all of the panel.

If these are difficult issues, then the fair issue is in terms of what is going to be the real impact in terms of the economy. I mean I think whether we take a look -- and I think, Mr. Maloy, you are paying $5.15 so you wouldn't be affected in terms of the increase in minimum wage, and of course we have the other instances in terms of students.

We tried in the past where we had a training wage for young people and particularly for students to go through, and by and large it wasn't even utilized. It was a condition in the past time that we increased the minimum wage for acceptance, and then once it was put in, really, the employers themselves did not use it, and I think we find out that the adverse kind of conditions that you have outlined really didn't develop.

I must say, Ms. Haynes, I think you make a very strong case on the fact that two-thirds of all those that receive the minimum wage are adults, two-thirds of them are women, and we just had a hearing on the child block grant programs in terms of what is even being suggested over here in the House. We are looking at that. There was only about 5 percent that are eligible for child assistance and help that are getting any advantage of it in any instance, and even before Senator Kassebaum's committee when we were doing the review about what was happening over here in the State of Virginia said that any person on the welfare programs -- it was impossible for them to even consider getting people off of the welfare unless it was going to be about $7 an hour.

We are talking about getting up to $5.15, which is the purchasing power which we had last time that we had an increase in minimum wage that was supported by Republicans overwhelmingly. We had 89 votes on our side by the Republicans, including Mr. Gingrich at that time, including Bob Dole, and this has been a bipartisan effort in the past.

So I respect our other witnesses, but I think your testimony about the importance to women and the importance to adults, people that are really trying to make it, is just enormously powerful and is what I think this debate is about.

I thank the Chair.

Representative Saxton. Thank you, Senator.

And thank you, panelists, very much. We wish we had much more time to spend with you. Your perspectives are very interesting and important to us.

Representative Mfume. Mr. Chairman.

Representative Saxton. However, at this time we are going to move on to the next panel. Thank you.

Representative Mfume. Mr. Chairman.

Mr. Chairman, I would like to raise a point of order against the proceedings. I recognize that we are faced to some extent with time constraints, and I appreciate the efforts of the Chair to try to move things along. This is a very important subject that is going to affect the lives of millions and millions of people. I think that we should spend time on this, regardless of who may be about to testify, this deserves our efforts, so we should not try to truncate what is happening here.

Some of us -- at least this Member feels very strongly about this and was duly elected to this body to be able to take part in these hearings, to raise questions, to participate in the testimony, and help to establish the public record. It is difficult when we move in a truncated fashion, even in this instance, where this panel is not even allowed to be addressed by this Member or others because of this time constraint, and I recognize that the Secretary is coming, with all due respect, and that others have schedules, but the American people have time constraints too.

I worked minimum wage for six years, and I worked two jobs after that for 16 years. I know what it is to be out there looking at this body for answers and hoping that this body understands the plight of people who are struggling, who are black, and white, and brown, who are women, who are not all young people but who are adults, and so I would respectfully, in making this point of order, suggest that while I appreciate and understand the fairness of the Chairman -- and I do mean that; he and I have had a good relationship -- it is difficult to sit on this very important subject and not have the opportunity to chime in, and I would hope that if the Secretary appears as he is scheduled to do in half an hour and is rushed, that we remind him that part of his responsibility is to stay here and to deal with this, and part of our responsibility as Members of Congress is to do the same.

I respectfully yield back to the Chair.

Representative Saxton. I thank the gentleman.

We have other time constraints as well. Unfortunately, the room is scheduled for other business at one o'clock.

Like the gentleman, I worked many years -- not many years but some years, for minimum wage, and I know what that is like. I happen to have been a college student at the time and, fortunately, was able to get another job because of the experience that I had.

But in any event, I appreciate the gentleman's feeling, and I want to explore these issues at great length. These witnesses are very, very good witnesses, and they are much appreciated. Unfortunately, because of time constraints not just for the Secretary but with the logistics of this room, we are going to have to move on to the next panel, and I hope the gentleman will understand.

Thank you very much.

We will now call the next panel. We have four very distinguished people with us: Dr. Lowell Taylor, from the Heinz School, Carnegie Mellon University; Dr. Finis Welch, Department of Economics, Texas A&M University; Dr. Peter Brandon, Institute for Research on Poverty, University of Wisconsin; and Dr. Bill Rodgers, College of William and Mary.

We welcome you here today. We know that you have spent a good deal of time in dealing with this issue and other issues of like importance in your professions. We are anxious to hear your testimony.

As you have all just heard, we have some time constraints within which we have to accomplish our tasks today. We look forward to hearing your testimony, and we will start with Dr. Brandon.

PANEL III

STATEMENT OF PETER DAVID BRANDON, INSTITUTE FOR RESEARCH ON POVERTY, UNIVERSITY OF WISCONSIN

Mr. Brandon. Thank you, Mr. Saxton.

Proponents of raising the minimum wage argue that such a measure would move single mothers off welfare and into jobs. Plainly, a key mechanism for reducing welfare dependency among single mothers is to make work pay, something that the earned-income tax credit is beginning to do.

Until we make more progress, living standards of welfare mothers and their children will remain low. Few will be able to exit welfare through paid employment, and their children will learn that working hard and playing by the rules may not be enough to escape poverty or welfare dependency. Thus, developing an effective employment strategy to move single mothers from welfare to work is paramount.

Everyone knows that getting mothers off welfare and into stable jobs that pay a living wage benefits them and the nation as well. I am skeptical, however, that raising the minimum wage would help single mothers leave welfare or solve their economic problems.

Scholars have not reached a consensus on the antipoverty effectiveness of minimum wages. Indeed, a number seriously doubt that raising the minimum wage would reduce poverty. Some economists suspect that minimum wages on their own are "badly targeted as an antipoverty device," and question whether increases in the minimum wage close the gap between rich and poor.

Moreover, research results that have been driving the debate over minimum wages have pertained to low-wage workers and teenagers, not welfare recipients. I know of no direct evidence suggesting that raising the minimum wage would encourage welfare mothers to work even though some have stated that an increase would indeed move welfare recipients into the work force.

At this time, stating that an increase in the minimum wage would, by itself, convert welfare mothers into gainfully employed citizens is hopeful speculation. There is no evidence to support it. In fact, my current research suggests the opposite. My study indicates that a rise in the minimum wage may extend, not shorten, the length of time mothers spend on welfare.

When I examined spells of welfare receipts among single mothers, I found that spells were longer among mothers who lived in states with high minimum wages or who lived in states that increased their minimum wage. Again, I want to repeat my basic point that the studies showed that a rise in the minimum wage may extend, not shorten, the length of time mothers spend on welfare. My research on this topic is ongoing.

Presently I am moving in two directions that are relevant to our discussion today. First, I intend to re-analyze my data in order to further test my results. This will involve incorporating fresh data on costs of living differences across states and additional data on the generosity of welfare benefits across states.

Senator Kennedy. Did they include those earlier? Did you include the welfare earlier?

Mr. Brandon. Senator Kennedy, in the second part of the study this would be women that have either not been on welfare at all or have been on welfare and are now getting off welfare or basically trying to get by after being on welfare.

Senator Kennedy. But did --

Representative Saxton. Senator, I'm sorry, we are not going to be able to do this. This is out of order.

Senator Kennedy. Well, I would just make the same point of order that, do we want to have hearings or are we going to just jam these witnesses through? This is a relevant issue. All I am trying to do is understand his testimony. He repeated it for emphasis.

Representative Saxton. Senator, you know -- you have been here longer than I. I have been here for 10 years, and the standard format for hearings such as this is to hear from witnesses, establish their testimony, and then ask questions, and that is what we are going to do here today.

Senator Kennedy. I will be quiet after this. They also have permitted Members to make inquiry so that we have the testimony as complete. All I was asking is for a clarification of a point that he made, which is the basis of it, and that is whether in his studies on the minimum wage, whether they also included the differential on welfare payments in the state. That is the only point I was trying to elicit, and I would think a yes or no could have responded to it.

Representative Saxton. Thank you, Senator.

We will now extend your time by two minutes, Dr. Brandon.

Mr. Brandon. Thank you.

Given my findings and economic theory, in my judgment raising the minimum wage will not move a large number of welfare mothers into the work force. Besides, the proposed size of the increase would not solve these mothers' economic misfortune.

I will just move on to the end of my statement, Mr. Saxton.

I think that there are better ways to go about basically promoting economic independence among welfare mothers than raising the minimum wage. Employment policies should give former and present welfare mothers greater incentives to work.

Many more welfare mothers work than people realize. Their efforts should be encouraged either by raising the earnings, disregarding of the AFDC program, or lowering its benefit reduction rate. Beyond such tinkering, maintaining the current level of the EITC benefits is pivotal because it rewards work. If the aim is to convince single mothers that welfare is temporary, then those who are not working should attend job training or remedial education programs like JOBS or Job Training Partnership Act (JTPA).

Finally, mothers who move off welfare and into jobs need employment-related services and other assistance. Many former welfare mothers return to welfare because there are too many uncertainties. The irregular child support payments, unstable child care, and inadequate health insurance make welfare look more attractive than juggling a job and family demands.

Policies that promote stability in the early phase of economic independence like child support enforcement and the dependent care tax credit are essential to keeping women from returning to welfare. These sorts of policies, targeting former welfare mothers and current recipients, will be more effective than raising the minimum wage.

Thank you for giving me the opportunity to comment on this issue.

[The prepared statement of Mr. Brandon appears in the Submissions for the Record.]

Representative Saxton. Dr. Brandon, thank you very much.

We will now turn to Dr. Welch, the gentleman from Texas A&M University.

STATEMENT OF FINIS WELCH, DEPARTMENT OF ECONOMICS, TEXAS A&M UNIVERSITY

Mr. Welch. Thank you, Mr. Chairman, for the opportunity to testify.

I worked for a long time on employment issues surrounding changes in the minimum wage. I have always been amazed at the amount of discussion that these subjects raise. To an economist, the effects of the minimum wage are pretty much a no brainer. To understand what is going on, think of the fact that when we as individuals try to find employment typically we act in our own interest to get the very, very best job that we can when jobs are defined broadly to include chances for advancement, fringe benefits, the ability to learn, ability to work in conjunction with maybe school activities and other things.

When we pass a minimum wage, when someone is earning less than the minimum, and we tell them we are not satisfied with what they are earning, they must find a higher wage or they are no longer permitted to work, we are doing nothing in and of itself to increase the person's productivity. You have to ask what are that person's alternatives; they are, just find a higher job, which they have previously demonstrated that they couldn't do, or stop working.

Now when we tell an employer you must pay a minimum or you can't hire, the employer's immediate opportunities are to substitute for workers who in any case would earn more than the minimum, and we are all aware that a very small fraction of employment occurs at the minimum wage. Other alternatives are to automate, to outsource, to go abroad or to go to self-employed people where minimum wages cannot be enforced. If that doesn't work, if the employer's costs rise appreciably, then the employer's employers -- that is, the consumers -- can substitute away from the now relatively more expensive commodities. So there are plenty of alternatives on the employment side, but not for the employees.

The minimum wage is typically characterized as if it is a way of fighting poverty. The most recent evidence that I have seen suggests that if we look at minimum wage workers, they are essentially horizontally distributed across the family income distribution, with teenagers from relatively high-income families; second, workers from middle-income families; and then adults from low-income families who are truly not highly skilled and very dependent upon their wages.

The argument that seems to be around these days comes from a series of studies by economists at Princeton and Harvard, and they have challenged the earlier literature, the conventional wisdom, with case studies of fast food restaurants showing no reductions in employment following the 1990/91 round of increases in the minimum wage. Although our new Labor Secretary appears to take these studies seriously, it is unlikely that they will have a lasting impact on the opinions of economists. The major weakness is that the studies do not account for changes in product demand among the establishments considered.

A colleague whose opinion I value highly put it as directly as possible: I guess we would all be eating hamburgers if the minimum were high enough.

Regardless of the recent case studies, the larger literature may leave one with an impression that the employment effects of minimum wages are unimportant. That would be unfortunate because a small percentage of a large number is not necessarily unimportant.

The recent two-step increase in the Federal minimum brought it from $3.35 to $3.80 on April 1, 1990, then to $4.25 April 1, 1991. Between March 1990 and April 1991, the minimum increased 27 percent.

If we examine employment changes for the 12 months preceding the first of the two steps to the 12 months following the second increase in the Federal minimum, we find that employment of teenagers fell relative to adults, employment of high school dropouts fell relative to employment of those with more education, employment of blacks fell relative to whites, employment of persons of Mexican descent fell relative to others, and employment of those who are single fell relative to those who are married. In short, employment fell most where wages are lowest.

Notice that the 1990 and 1991 recession followed the increases in the Federal minimum. This is nothing new. It seems that employment growth usually slows when the minimum is increased, and when growth is not robust recessions typically follow. Even so, you may ask whether the reductions in employment among the low-wage populations that follow the most recent minimum wage increase result from the increase in the minimum, per se, or from the recession.

In a paper that will be published in the annual proceedings issue of the *American Economic Review*, my colleagues Donald Deere, Texas A&M, and Kevin Murphy at the University of Chicago, and I address this issue. Judged against the increases in the relative employment of low-wage labor that accompanied the mid-1980's expansion, we find independently of the recession that the increased Federal minimum led to approximately a 10 percent reduction in the proportion of teenagers who were employed. The effects for prime-aged blacks and high school dropouts were significant but not as pronounced.

I will be happy to answer questions.

[The prepared statement of Mr. Welch appears in the Submissions for the Record.]

Representative Saxton. Dr. Welch, thank you very much.

We are going to move right along to Dr. Taylor.

STATEMENT OF LOWELL TAYLOR, ASSISTANT PROFESSOR OF ECONOMICS, CARNEGIE MELLON UNIVERSITY

Mr. Taylor. Thank you very much for the opportunity to spcak.

The traditional policy of minimum wage relies, as Professor Welch says, on a very simple idea, and in fact it has a name. It is called the law of demand...that when the price of something increases people tend to buy less of it. So the idea as applied to low-wage labor markets is going to be that when the minimum wage goes up there will be fewer jobs for low-skilled workers. That is a traditional analysis.

But the law of demand is not some kind of immutable truth. It is a generalization (empirical generalization) that has gained the status of law in economics because it holds so broadly. And here's the question: Does it really apply to low-wage labor markets? Well, I would like to answer that question by referring to evidence, and the evidence I am looking at is from California's most recent minimum wage increase.

In 1988 California went ahead beyond the rest of the U.S. and raised their minimum wage from $3.35 to $4.25. The immediate consequence of this increase was to raise the average wage in low-wage industries as we would expect, and of course if the textbook analysis applies we would also expect to observe that employment would have been dampened in those industries.

An obvious place to test this latter proposition is in the retail trade industry. You see, in retail trade in California about 30 percent of workers work at about the minimum wage or slightly higher (but below the new minimum wage). So when we look at that industry, here's what we find. Sure enough, wages go up in retail trade, but the amount that wages go up depends on the specific industry. Now in some industries like, say, women's clothing and general merchandising, wages went up pretty quickly because those industries generally pay lower wages.

Say auto sales, a completely different story. Most workers already earned a pretty high wage, and the minimum wage had no effect.

Now here's what we find. When we look at this variation in industries we find that precisely in those industries where wages grew most rapidly employment declined in California relative to the rest of the country. In contrast, in industries where the wages didn't rise relative to the country, employment growth was robust in California. That is the first piece of evidence, but that is not all.

We can also look at county variation. You see, California is a big State, and we have San Francisco County which is a pretty prosperous county. Not many made wages close to the minimum prior to this increase in the minimum wage in 1988. In contrast, other counties such as, say, Sutter County had much lower wages, and where the minimum wage did bite it did raise wages.

Now what is the experiment we want to perform here? We want to ask what happened to employment in Sutter County, say, versus San Francisco County. The answer is that in San Francisco County where the minimum wage didn't bite employment growth was robust. In contrast, it actually declined in retail trade in Sutter County. And you say, well, okay, maybe in those two counties business conditions were different, but we have evidence on that as well.

The State Board of Equalization in California was kind enough to give my colleague and I at Carnegie Mellon access to their tax data, and since sales are taxable in California we know that, in fact, taxable sales grew about the same in those two counties.

Now what we did was to analyze all these patterns, and I have a paper forthcoming in the *Journal of Economic and Business Statistics*. (This is an American Statistical Association journal, and I would be glad to pass that on to interested folks.) But the conclusion is this -- that the data tells that the minimum wage increase did generally temper employment growth in low-wage retail trade industries in California.

Now other analysts have reached different conclusions. I understand this, and maybe the way to view much of this research is as an uncomfortable reminder that we experts should approach with some humility the task of predicting even the effect of a simple policy like the minimum wage in a market as complex and varied as the low-wage labor market in the U.S.

But the evidence, in my view, from California is difficult to dismiss, and I hope the Committee recognizes that the minimum wage increase does hold some considerable risk for accomplishing the goal of redistribution to low-wage workers. And this of course really follows from the simple and compelling argument that is found in nearly every introductory textbook in economics.

Here I can just quote from the textbook co-authored by Federal Reserve Vice Chairman Alan Blinder, a standard text, by the way: Policy Makers Face A Trade-Off. Higher minimum wages increase the income of most low-skill workers, but these gains come at the potential cost of fewer jobs for those same workers."

Thank you very much.

[The prepared statement of Mr. Taylor appears in the Submissions for the Record.]

Representative Saxton. Thank you very much, Dr. Taylor, for your very enlightening testimony.

Dr. Rodgers, the gentleman from William and Mary.

STATEMENT OF WILLIAM M. RODGERS III, ASSISTANT PROFESSOR OF ECONOMICS, COLLEGE OF WILLIAM AND MARY

Mr. Rodgers. Mr. Chairman and distinguished Members of the Joint Economic Committee, thank you for the opportunity to appear before you and discuss the issue of raising the Federal minimum wage.

The minimum wage is a topic of active academic debate. The major argument against an increase is the belief that a minimum wage increase generates huge job losses. The basis for this view comes from outdated research. Academic researchers have never predicted huge job losses for the adult population, the only job losses that are predicted are for teenagers, yet even for teenagers reviewers of this literature conclude that a 10 percent increase in the minimum wage leads to a zero to three percentage point increase in the teenage unemployment rate. In a survey that was published in the *Journal of Economic Literature* by Brown, Gilroy, and Kohen, they favor the bottom end of this range in terms of an effect.

These estimates yield an increase in the income of low-wage workers, and, for example, suppose that each 10 percent increase in the minimum wage produced job losses of 1 percent for minimum wage workers. Using this estimate, a simple back of the envelope calculation shows that with a 90-cent increase in the minimum wage, 98 percent of the 11 million workers between $4.25 and $5.15 get a raise and only about 2 percent have to look for new jobs. Given the high turnover rates in these jobs, spells of unemployment should be quite short. Furthermore, the net gain for the economy will be even greater if effort is tied to wages because productivity will improve.

The majority of the recent research on the effects of minimum wage increases shows that the estimated job losses are small or negligible. These studies appear in prestigious journals where results are scrutinized by economists prior to their publication. Three such publications are the *American Economic Review*, *Journal of Human Resources*, and *Industrial Labor Relations Review*, and the annual proceedings of the *American Economic Review* are not a referee journal.

As a result, many distinguished economists are changing their views. In a recent *New York Times* article, Nobel Laureate Robert Solow stated that the main thing about this research is that the evidence of job loss is weak. Elsewhere, distinguished labor economist Richard Freeman stated that most studies, however, reject the notion that in the late 1980s/early 1990s, increases had adverse employment effects, and the studies that find adverse effects prior to these increases obtain small employment effects.

Let me now talk briefly about who would benefit from the minimum wage increases. The debate has focused on teenagers. Again, this is based on outdated literature. If one looks at the current data for workers who say that they are paid an hourly wage, you find that, one, most minimum wage workers are adults over 20 years of age, and, two, more than one in five minimum wage workers lives in a family below the official poverty line.

Some have also argued that an increase in the minimum wage would have a differential impact on the employment of black teenagers. However, my recent analysis of the 1980 and 1981 minimum wage increases that used data from the National Longitudinal Survey of Youth, where I am following individuals over time, actually see them as opposed to aggregate data, strongly suggest that teenage employment was not adversely affected by the increases and black unemployment was not adversely affected. The employment rate of teenagers who were affected by the minimum wage is the same as the employment rate of teenagers who were employed in industries that were exempt from the minimum wage increase, and the unemployment of black teenagers did not increase. After the 1980 increase it actually went down.

Finally, let me talk about wage differences across racial groups. During the 1980s the relative earnings of new entrant black workers fell. The relative earnings of blacks in the most recent cohort that entered the labor market also fell. Some of my earlier work finds that the decline in the real value of the minimum wage plays a key role in explaining this erosion in earnings among less skilled high school dropouts and high school graduates. These results are quite consistent with the findings of Professors John Bound and Richard Freeman. The puzzle is that the 1980s was a period in which racial differences in educational attainment and other ability measures continued to narrow.

In summary, I think that the current research on the minimum wage provides an excellent foundation on which to base a modest increase in the minimum wage.

Finally, I find it ironic that one of the opposition's major arguments against increasing the minimum wage is that it would have a differential impact on employment of teenage black males. To the people who have this concern, I applaud you for your caring in this complex issue. However, you are focusing on the wrong sets of statistics.

Thank you.

[The prepared statement of Mr. Rodgers appears in the Submissions for the Record.]

Representative Saxton. Dr. Rodgers, thank you very much.

I think we have an opportunity here to just ask the classical question that Dr. Rodgers has raised, and I think perhaps Dr. Rodgers didn't use these words, but I guess I would ask it this way. If Dr. Rodgers is correct that this increase in the minimum wage does not hurt economic growth, business, and job creation, then we would be derelict in our duties not to provide for this minimum wage increase, and so my question, I guess is, is Dr. Rodgers correct, in your opinion, in your other three opinions, and, if not, why is he not correct?

Dr. Brandon.

Mr. Brandon. Mr. Chairman, I think that one of the things that is important to highlight here is, basically I don't think that Dr. Rodgers is correct, and I'll leave it to my colleagues to comment also, but an important point here is to also acknowledge that the demand for less-skilled workers is going down much, much faster than the number of low-skilled workers out there. So when you consider that fact alone and then, on top of that, you are going to increase the cost of that low-skill labor, it stands to reason and intuition that this is going to cause a disemployment effect.

Basically, I guess you could say it is like a double whammy. You have got a major economic trend out there, and then on top of it you are going to legislate new policy which, in my opinion, will not help those low-skill workers.

I'll leave it at that.

Representative Saxton. Dr. Welch.

Mr. Welch. I guess my only comment is that if Dr. Rodgers is correct, there is obviously a free lunch. I don't know why we would waste our time talking about education, talking about training, why all the countries of the world with low incomes just don't latch on, just raise the wage. That is the only thing that is necessary if productivity is unimportant.

I will point out that one characteristic of being a teenager is that you tend to get over it, and we concentrate on teenagers because we have the highest concentration of low-wage employment amongst teenagers, but that is not where the most important problem is.

However, in looking at panel data of the kind that Dr. Rodgers describes, part of what is going on is that people are aging, and wages rise very, very rapidly in the early career, and it would not be surprising at all to find that if you track a particular individual, that individual does not lose his or her job, it is the individual of the age that this person was previously who would otherwise be replacing them in a beginning position who is just not going to be there.

Thank you.

Representative Saxton. Dr. Taylor.

Mr. Taylor. Well, yes. I view this as sort of an empirical issue. What we want to do is, we want to look at the data and see what the data say. And, again, when I look at the California retail trade industry, I am not looking at teenagers specifically or people of one particular race or another, it is just what is going on in the total level of employment in retail trade. And the answer really is pretty clear, I think, if you look at the sources variation. In counties where wages were lower and where the minimum wage mattered and in industries where the same is true, employment declined relative to their counterparts. I mean that is the evidence.

That is my best answer.

Representative Saxton. In other words, you are saying that in those areas where the minimum wage mattered, meaning that is what people were earning to a large degree, then an increase in the minimum wage caused job loss.

Mr. Taylor. Precisely. What you do is, you look at the panel over a bunch of years, look at the data over a bunch of years, and you ask, what does a pattern look like? If you look from 1985 to 1986, 1986 to 1987, 1987 to 1988, all those years, sort of roughly equal growth in all industries. But when you get to the one year where the minimum wage goes up, and, all of a sudden, what happens? Employment declines in industries that are paying low wages relative to other industries. I mean that is what the evidence shows, and that is the concern.

Representative Saxton. So if one were to do a study of fast food restaurants in New Jersey where the entry-level wage was seven or eight dollars, it might not have any effect.

Mr. Taylor. Well, that is right. Understand, I mean the study you are referring to by Card and Krueger pays attention to that. I mean they know this as well as you and I do, and it is a careful study. I view it as an anomalous study because it is hard to explain. Other folks like Dr. Rodgers, I suspect, would view my study as anomalous because he is more inclined to trust those results. It is a puzzle to me, I am quite happy to concede that, yes.

Representative Saxton. Dr. Rodgers, I am out of time, I'm sorry, but if you would like to take one minute to wrap up here, and then we will move on to Mr. Stark.

Mr. Rodgers. Sure.

Just in terms of responding to a few of these comments, one concern I have is, there needs to be a reconciliation between David Card and Lowell Taylor's studies, the studies of California's increase. So, I am concerned about accepting Mr. Taylor's results.

Second, when I look at the NLSY data set where I am following these youth over time, my sample are teens who are 16 to 19 years of age. I follow them for two years: one year prior to the minimum wage increase and one year after the increase. So my concern with Professor Welch's comments is that about wage growth in panel data, you do see dramatic increases, but not one year before and after.

Representative Saxton. Thank you very much.

Mr. Stark.

Representative Stark. Thank you, Mr. Chairman.

I just find this testimony fascinating. I can't believe that one lobbyist can create so much data in such a short period of time.

Dr. Brandon, the Employment Policy Institute published the work upon which your testimony is based, did they not?

Mr. Brandon. That is correct.

Representative Stark. Did they pay you for that?

Mr. Brandon. No, they did not. The money went to the Institute for Research on Poverty.

Representative Stark. And they paid you.

Mr. Brandon. Yes.

Representative Stark. So the money went from the Employment Policy Institute, to somebody else, to you.

Mr. Brandon. That is correct. Well, no. It was included in my salary, Mr. Stark.

Representative Stark. And you submitted this research to a refereed journal?

Mr. Brandon. At the present time the research has not gone to a refereed journal.

Representative Stark. Thanks.

Now let's try Dr. Taylor, also I think hooked up with this great Employment Policy Institute, one of the leading --

Mr. Taylor. Yes, I can actually answer the question.

Representative Stark. If you can wait, I'll ask the question. It will be a little easier to answer before you dig any deeper into this, Dr. Taylor.

To summarize, first you had your data cover one period in California, I suppose 1990 to 1991. Then somebody suggested when you submitted this to a refereed journal that you ought to increase the period that you looked at, and so when you wrote a theory for a purely academic journal explaining how the minimum wage might not hurt employment, that was one conclusion. Then when you were on the payroll of the Employment Policy Institute, you toss that answer away and you come up with the conclusion you are giving us today.

Now what do you do when you are not on somebody's payroll? I mean how can I decide which theory I ought to listen to you on, the one that you get paid by the restaurant association or the one you get paid at the Carnegie Institute? Which is the real Dr. Taylor here?

Mr. Taylor. Well, which is the real Dr. Taylor? You refer to the paper that I wrote with my colleague Jim Rebitzer at MIT, and here's a paper where we ask the question --

Representative Stark. The Restaurant Association didn't pay you for that?

Mr. Taylor. They didn't pay me for this. No, no.

Representative Stark. They paid you for the one you are giving today?

Representative Saxton. Please. You ask the question.

Mr. Taylor. Actually, they didn't pay me for that either, but we'll get to that in a second.

The first paper I wrote with --

Representative Stark. We don't have much time, Doctor. I just want to know who is paying you.

Mr. Taylor. I can answer that, I think. Jim Rebitzer -- we wrote this paper, and we asked this question, could we economists be wrong? I mean I told you, we have got a simple story, the law of demand, but could we be wrong? So I explored this issue in great deal, and it is a theoretical paper, right, no data, and it says there is a possibility, yes, maybe the minimum wage, maybe we are wrong. So that was the first paper. It is being published, by the way, you will be pleased to hear.

Now the second paper, I started working with a student of mine at Carnegie Mellon, and we just asked the question empirically, given that we found that maybe we economists were wrong, what did the California data tell us? And that is the paper I am reporting for today. That paper was written completely prior to any association I had with the Employment Policy Institute. I sent that to the chief economist at the Labor Department. It was cited in the *New York Times*, all of this eight months before the folks at the Employment Policy Institute asked if they could reprint a portion of it for their working paper series.

That is the answer to your question.

I am persuaded by some of the arguments that my colleagues make that there is a possibility the minimum wage doesn't reduce employment. That is just not what the data told me.

Representative Stark. What did the Restaurant Association tell you?

Mr. Taylor. They told me nothing. I actually -- as I said, I was actually contacted, and they just simply asked, would you be willing to have us reprint a portion of your paper in our working paper series?

Representative Stark. But just a portion?

Representative Saxton. The gentleman's time has expired.

I would just like to remind the gentleman that we are talking about a whole series of studies that have been done over 20 years and we are comparing them and trying to figure out why it is that the 12 studies that are here disagree with the large, voluminous number of studies that have been done over a long period of time.

Representative Stark. Most universities don't have the money that the Restaurant Association has to pay for them, Mr. Chairman. That is easy.

Representative Saxton. I think the gentleman's accusation impugns the character of the witnesses who agreed to come here today, and I don't think it is polite. If you have those thoughts in your head, that is where they should stay.

These are academicians who are credible, good people, well-founded in their disciplines, and for you to stand here publicly and accuse them of malfeasance and misrepresenting facts I think is a very unfortunate set of circumstances.

Representative Stark. But quite accurate, Mr. Chairman. But quite accurate.

Representative Saxton. We will go to the next questioner, Mr. Ewing.

Representative Ewing. Thank you, Mr. Chairman.

A question for Dr. Brandon.

What states was your study in? Was it just California?

Mr. Brandon. No, sir. It covers all the States of the United States and the District of Columbia.

Representative Ewing. Do you find that there is a different effect in a state -- I am not from California, but I consider it to be a higher-wage state, higher cost of living state, than, say, a rural state, North Dakota, something like that. Is there a difference in the way the minimum wage would affect employers or employment in a more rural state, a lower cost of living state?

Mr. Brandon. In this study I can't address that, I don't address your question. What I find in some of the other work that I am doing, which does get to answer your question, is that single mothers that move, actually move to states with lower minimum wages or lower cost of living, which seems to make sense.

I was fortunate in the study. The reason why I can look at that in other work that I am doing is that I have State level minimum wages, which is a very important point, and I have that relative to the Federal minimum wage, and I have that over time so I can actually track each state's behavior and legislative process with respect to changing the minimum wage, the actual dates when that happens and the movements in this case of single mothers, not just welfare moms. But that is the only way I can address your question at the moment.

As far as looking at whether higher minimum wages in certain states increase or lead to a disemployment effect in those states, I haven't addressed that question.

Representative Ewing. Dr. Welch or Dr. Taylor, do either of your studies in this -- are they affected by the state and the cost of living and the wage scales in those states?

Mr. Welch. It is not something that I examined. I looked at national aggregate data. And I believe Dr. Taylor looked at California proper. What happens in the most recent increase is that during the period leading up to the 1990/91 recession, growth in employment at the state level was actually more robust in lower-wage states, so when you look at the effect of the increased minimum you have got to contend with the fact of what is going on in the general level of business. Without isolating minimum wage effects, you actually find employment of typically low-wage groups falling more in higher-wage states.

Representative Ewing. Thank you.

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Dr. Rodgers, just one quick question. Do you find that the increase in the minimum wage has an upward pressure on all other wages, on the whole scale of wages?

Mr. Rodgers. Are you referring to the evidence that I cited using the National Longitudinal Study?

Representative Ewing. Well, just from your studies. Would that be your conclusion that if we raise the minimum wage we will put pressure on other wages to be forced up in some reasonable period of time thereafter?

Mr. Rodgers. Yes, because there are, I think -- as earlier panelists said, there are folks who are earning above the minimum wage but their wage is tied to the minimum so their wage only moves when the minimum wage moves. So, along with people who earn the minimum wage, their real earnings have also fallen. Thus they would benefit.

Representative Ewing. Okay. Thank you.

Thank you, Mr. Chairman.

Representative Saxton. Senator Kennedy.

Senator Kennedy. Thank you, Mr. Chairman, and I appreciate the comments of all of those here today.

I think as far as we are concerned on this Committee, we have to look at the studies. Studies have been mentioned over the course of this hearing, studies that have gone on for 12 years. I think what we ought to look at is what the real effect has been on the seven different times that we have increased minimum wage. We can study this, study that, study this, study that. There are independent studies that show there hasn't been a loss of jobs, and the fact of the matter is, when you look at what has happened in the seven times that we have increased minimum wage, the kinds of economic and job loss that three of our witnesses have talked about just haven't happened, just haven't happened. I think that, quite frankly, is the most convincing fact to me.

Now let me ask you, Mr. Rodgers, the people that you are talking about, I listen about how many commentators talk, about well, this isn't going to be good for African Americans, this isn't going to be good for poor people. We hear an awful lot of statements about that. Who do you think can benefit on this thing? Are you talking about kids in college that are going to buy another CD-ROM? Are you talking about single mothers? Are you talking about women? Are you talking about mothers with children? Are you talking about blacks and browns that are trying to make it and play by the rules?

Mr. Rodgers. That is correct.

Senator Kennedy. I heard Mr. Taylor make a disparaging comment about Mr. Krueger's studies. I just want to point out that study was published in the *American Economic Review*, which is probably the most prestigious economic journal, and also even the -- Mr. Burtless of the Brookings Institution pointed out as saying that he finds the Card-Krueger study convincing. Professor Ehrenberg of Cornell called the Card-Krueger study extraordinarily important and said it will cause economists to question seriously the models they use and how they do empirical research. These are important studies, the ones that have been done, and I think it is important to put this in some perspective.

I would ask Dr. Welch, in following both Messrs. Brandon, Welch, and Taylor during the course of the hearing, they used the words here, "It should be just a no brainer" -- we ought to understand that the cost of doing things is going down -- it's a no brainer. Well, I look back about what has happened to the value of the minimum wage over the period of the past years. If it is a no brainer that evidently, as has been suggested, that if the wages go up then you are going to lose jobs, why isn't it a no brainer if the value of the minimum wage has gone down that we haven't seen a significant increase in employment on teenage youth? You can't show it. You haven't testified to it. You haven't got that study because it doesn't exist.

So I would just ask if you have, Mr. Welch. I know that you did the study. I heard the click go, but let me just in 10 or 15 seconds focus the question. You did studies about the teenage youth, and, as I understand, Frederick Siskin discovered the error in your data and found that the minimum wage was unrelated to the employment in 1949 and then you corrected the error in 1997, and, as I understand, you didn't include that the minimum wage did not adversely affect the teenage employment. Could you tell us about why the correction was necessary, how that came about, and what the bottom line was as a result of your own correction of the data on teenagers?

Mr. Welch. Sure. You are referring to one of, I think, four studies that I have done on the minimum wages. This was one published in *Economic Inquiry* in 1974. I had a time series that I had collected here in Washington -- one of my associates -- which was not published, it was available in the Labor Department, and I had employment -- my understanding was that teenagers 14 to 19, in 1967, the year of a minimum wage increase, the series had changed to employment 16 to 19, and when we collected the data we didn't catch the change.

When Mr. Siskin reviewed my study he was using my results to simulate the effects, I believe, of a proposal in 1973. He caught the mistake because the data were here. He published a rejoinder in the journal where I had originally published the study, and indeed I reran the numbers for him. I collaborated in the correction, and it did obviously reduce the calculated effect.

He had opined -- there were two parts of my study. One had to do with the effects of the minimum wage on the industrial distribution of employment, the kind of thing that Dr. Taylor is talking about. Mr. Siskin opined there wouldn't be an effect there. There was, and I redid that too. In fact, there is an effect in both cases. It was reduced obviously, and I like the correction. I appreciated Mr. Siskin's work.

Representative Saxton. Thank you very much.

Mr. Thornberry.

OPENING STATEMENT OF REPRESENTATIVE MAC THORNBERRY

Mr. Thornberry. Thank you, Mr. Chairman.

I, too, think that in considering all the studies that have been done it is also important to look at the numbers of what actually happened, and that is why I think all of us should be troubled in looking at what happened in the 1990/91 increase in the minimum wage when total teenage employment went from 15 to 20 percent, African American teen employment went from 31 to 40 percent, and that is what happened the last time we did this, which ought to be of concern to every Member of this Committee.

Dr. Brandon, you made a point which was, I think, particularly important primarily because some folks back in my district were telling me this very thing this past weekend, and that is, in the future, the demand for low-skilled workers is going to go down, and they showed me some very strong evidence that of the total work force the number of low-skilled workers that we are going to need in the future is going to shrink. My question is, is there any dispute about that? Is that a controversial topic? And if there is widespread agreement that is going to be the case, what effect does it have to increase the cost of that low-skilled labor?

Mr. Brandon. Well, Mr. Thornberry, I know that Dr. Welch has also looked into this topic. I think most economists or economists that I know -- and if you look at since the 1970's basically the trend is pretty -- it is there, and the fact is that the demand for low-skill labor is decreasing, and some would say decreasing rapidly, the internationalization of markets, migration issues, less unionization, all fueling this trend, and so what you have got is less demand for low-skilled workers more than there are low-skilled workers. As someone once said to me, there's just not enough lousy jobs.

Now whether we like that or not, it is a fact, and I think that this Body as well as this country has to figure out what they are going to do about that and whether they want an income goal of trying to some way come up with an income floor that I think will create a better pillow than increasing the minimum wage.

And what is also interesting, if you look at this, basically the real declines have been amongst prime age males. Surprisingly enough, single mothers have had pretty constant employment in the low-wage sector. What is really interesting is that low-skilled married mothers' labor force participation has basically increased dramatically. So if you think about these trends that are going on, these economic trends as well as changes in household composition, I think we have to come up with some new policies or ways of dealing with it, and I think there are much more effective policies than the minimum wage like training programs or the reskilling of workers.

Representative Thornberry. Thank you, Mr. Chairman.

Representative Saxton. Mr. Mfume.

Representative Mfume. Thank you, Mr. Chairman.

Mr. Taylor, let's try to get back to establishing which Dr. Taylor is, in fact, here today, because I have some questions concerning your two different studies.

Is it true that you did theoretical work showing that increasing the minimum wage may actually increase employment?

Mr. Taylor. Yes, I did.

Representative Mfume. Is it true that work was unfunded?

Mr. Taylor. It is true that our work was unfunded.

Representative Mfume. Is it also true that the work you are presenting to us today was funded?

Mr. Taylor. Absolutely not true. Absolutely not true.

Representative Mfume. You did not get paid by the Employment Policy Institute?

Mr. Taylor. Absolutely not to do that research. That research was done completely in advance of any contact the Employment Policy Institute had with me to publish a summary.

Representative Mfume. Nothing?

Mr. Taylor. Nothing at all. I never met anybody from that organization or knew anything about them.

Representative Mfume. Okay. All right.

The chief economist of the Department of Labor, Alan Krueger, in his new book with Princeton economist David Card, did they not take time to reestimate your work?

Mr. Taylor. They did indeed.

Representative Mfume. And you had looked at employment in California from 1989 to 1991. Is that true?

Mr. Taylor. Only through 1990.

Representative Mfume. And that California raised its minimum wage.

Mr. Taylor. I'm sorry, only through 1989. I don't think it matters much but --

Representative Mfume. And California raised its minimum wage in --

Mr. Taylor. In 1988, July of 1988.

Representative Mfume. In 1988.

Mr. Taylor. Correct.

Representative Mfume. And that Mr. Card and Mr. Krueger extended the period and looked at the California employment situation from 1988 to 1991.

Mr. Taylor. That could very well be true. I am not as familiar with their work, I'm sorry to say.

Representative Mfume. Well, let me tell you what their work suggested. It said, when the extra year was added, that there was no effect (of the minimum wage on employment), and is it true also that a referee of the journal where you submitted the work instructed you to go back and to look at it also?

Mr. Taylor. Yes, that is true. Here's the truth, and that is that any study, no matter how convincing it looks, is never perfect. I'm happy to concede that there are aspects of my work --

Representative Mfume. And the referee concluded it was not perfect also.

Mr. Taylor. Well, I mean we had a -- the referee was David Card who had done an opposing study. The editor is George Tauchen, who is the editor from Duke, and there was also a second editor working on this particular paper from MIT. The consensus view among those three folks was --

Representative Mfume. The consensus view?

Mr. Taylor. No, no -- among these three folks was to go ahead and publish this paper based on the evidence. I am happy to concede though that there is mixed evidence on this issue.

Representative Mfume. You may concede that. I am at a loss. If you publish something one year that says it has no effect and you publish something later that says it has effect, which one does this Committee believe?

Mr. Taylor. That is very, very easy, sir, easy to answer. The first paper was purely theoretical. I am asking the question, the theoretical question, what could we find when we look at the data?

Representative Mfume. Which one should we believe, sir?

Mr. Taylor. We should believe the one that is based on the data. I mean this is an empirical question. This is an empirical question, absolutely.

Representative Mfume. Okay.

Mr. Brandon, you did get paid by the Employment Policy Institute, didn't you?

Mr. Brandon. No, that is not --

Representative Mfume. They paid an organization, and you did the study, and the organization paid you. Is that correct?

Mr. Brandon. They paid the Institute for Research on Poverty.

Representative Mfume. And they paid you.

Mr. Brandon. I am employed by the research --

Representative Mfume. How much did you get to do the study?

Mr. Brandon. I believe that the contract was for $12,500, sir.

Representative Mfume. I see, and in some of your research you include a variable that shows whether women in your study were married or not, right? Welfare women?

Mr. Brandon. Can you refer me to that?

Representative Mfume. Your paper includes a variable that shows whether the women in your study were married, table 8.

Mr. Brandon. I beg your pardon?

Representative Mfume. Table 8.

Mr. Brandon. The never- married variable? Is that the one you are referring to?

Representative Mfume. Yes, and the numbers in your study, based on funding from this Institute that was paid by the other Institute which was headed by Mr. Berman who is a registered lobbyist for restauranteurs across this country, suggests that if these women never marry they have a higher probability of getting off of welfare.

Mr. Brandon. Yes. During the panel, the 28-month panel, if these women did not marry, that is what this result says, yes, sir.

Representative Mfume. So should we believe then that we should be encouraging these women just to never get married and they will get off welfare?

Mr. Brandon. No, I would not reach that conclusion.

Representative Mfume. What conclusion should we reach?

Mr. Brandon. The conclusion that is in the paper where I state in the paper that this result is in conflict with other results and that possibly it is related to the fact that marriage events during the study or the observation period affected this study, and that is why --

Representative Mfume. Sir, I don't have a lot of time. I'm not trying to cut you off, but I do have to move on. Just one other thing, if I might.

Representative Saxton. Mr. Mfume, you are right, you are well past the five-minute limit, and so if you would conclude with one final question we would appreciate it.

Representative Mfume. Well, I just want to conclude with a point of order, Mr. Chair. We have four witnesses, three of whom are proponents, one of whom is an opponent. The previous panel had three witnesses, three of whom were opponents, one of whom was a proponent. We are in a situation where this Committee is forced to listen and not have the same opportunity, because of time constraints, to respond or to ask questions. I think that it hurts the credibility of what we are doing on such a very sensitive subject. I raised the point of order earlier, and I raise this one out of all due respect and would hope that in the future that there is a greater sense of balance as we bring panels before this Committee.

Representative Saxton. We will try to take care of that right away because the next panel is 100 percent proponent.

Representative Mfume. I understand that. I understand that, and without being coy or snide about it, that makes a total of 11 witnesses. How many of them have been on one side, and how many have been on the other?

Representative Saxton. Mr. Mfume, you know full well that we are here to try to air this issue as well as we can. The number one proponent in the country is here with us. We are going to hear from him next, and, as you know, we have gone out of our way to try to accommodate him in terms of time, and we are running a little bit late, so I appreciate your position and I also appreciate the frustration of being in the minority, I was there for a long time myself.

Representative Mfume. With all due respect, Mr. Chairman, I have been a minority much longer than you could ever hope to be.

Representative Saxton. There you go. There you go. And I would just like to conclude with this panel by saying thank you very much for being with us, all four members.

I just have to say that from the Chair's point of view there was a perception, at least through the Chair, that there may have been some unfortunate accusations presented or inferred, and certainly we appreciate your being here. I appreciate your credentials. I appreciate the work that each of the four of you do. I hope that you will come back and share your expertise with us on another occasion. Thank you for being here.

The Committee is going to take -- the Committee Chair is going to take a slight recess, and Mr. Ewing will fill in.

Representative Ewing. [Ewing presiding]. Thank you.

We are going to move right ahead with our next panel. We are very pleased and honored to have Secretary Reich here from the Department of Labor.

Welcome to the Joint Economic Committee, and just a real bread and butter issue here today that we all agree upon, so we look forward to your testimony, Mr. Secretary.

PANEL IV

STATEMENT OF THE HONORABLE ROBERT B. REICH, SECRETARY OF LABOR, U.S. DEPARTMENT OF LABOR

ACCOMPANIED BY ALAN KRUEGER, CHIEF ECONOMIST, U.S. DEPARTMENT OF LABOR

Secretary Reich. Thank you very much, Mr. Chairman, and I appreciate this opportunity to share with you our views, the Administration's views, our concerns about what has happened to the wages of hard-working Americans, why it is so urgent now to raise the minimum wage. This should not be a partisan issue. That, let me emphasize it, was not a partisan issue when it last came up in 1989. A majority of Republicans did vote to raise the minimum wage along with a majority of Democrats.

The evidence we have on the effects of an increase in the minimum wage since then, if anything, have shown that the minimum wage does not cost jobs if it is raised moderately, as the President proposes.

Let me put this issue in a broader context. I want to introduce in a moment Dr. Alan Krueger of Princeton University, who is on leave this year as the chief economist of the Labor Department, who did this research before he came to the Labor Department.

But let me provide a little bit of context for the Committee on this question. Over the last 15 years we have seen a larger and larger disparity growing, a greater and greater gap in the wages of Americans. People who are well educated, who are well trained, people at the top, are earning more and more. College-educated Americans who count for about 25 percent of the total work force are doing better and better.

Now that doesn't mean that you get a free ride if you have a college education. There are a lot of young people graduating with college degrees who are still living with their families, who are having a tough time making it. My only point is that if you have a college degree you are doing pretty well.

If you are not educated, if you are not well skilled, you see less and less wages, lower and lower benefits, you are falling off the map. In fact, over the last 15 years people who only have a high school degree have seen their wages decline. Men with only high school degrees have seen their wages decline about 19 percent. Men with less than high school degrees have seen their wages decline 25 percent, and their benefits have almost disappeared. We are moving very rapidly toward a two-tiered work force. It is a legacy that this country cannot afford.

So many Americans I have met in my travels across this country as Secretary of Labor are hard-working. They tell me over and over again, "We don't want to be on welfare, we don't want to be dependent on food stamps, we don't want to be dependent on the Government, we want to work hard," and so many people are working hard and barely making it. In fact, today 16 percent of workers do not earn enough to keep a family of four out of poverty. This is up from 12 percent in 1979. Right now 16 percent of our work force does not earn enough to keep a family of four out of poverty. We are seeing a shocking increase in the working poor, the number of people who are working, who are in poverty.

Now at a time in our Nation's history when we are trying to get people off of welfare and into work, it is vitally important that we make work pay, and let me emphasize that. If we want to get people off of welfare and into work, we have got to make work pay. There is a great debate going on in Congress right now, a great debate going on in this country, about how to get people off of welfare. There are different proposals out there right now.

The President believes that one of the best ways of helping people off of welfare and into jobs is to give them job training and also to make sure that jobs provide a livable wage. The minimum wage right now is $4.25 an hour. Mr. Chairman, Members of the Committee, a full-time work worker at the minimum wage is earning $8,500 a year. I don't know, for the life of me, how we can expect somebody to make it on $8,500 a year.

Since the late 1930s this country has had a policy of establishing a minimum, livable, decent wage. It is no longer livable. You can not live on $8,500 a year. That minimum wage is now almost a third below what it was 15 years ago if you account for inflation, if you account for real purchasing power. That minimum wage has continued to decline. It has continued to drop. There was an uptick in 1989 when a majority of Democrats and a majority of Republicans decided to raise the minimum wage by the same amount that the President is now calling for, 90 cents over two years, but even that 1989 decision has been eroded by inflation. Half of that minimum wage increase voted on, voted for by Republicans, including Senator Dole, including then Congressman Gingrich, including many people here, has already been eroded by inflation.

These are not teenagers. There is a mythology out there that minimum wage earners are teenagers, they are middle class people. They are not. Almost two-thirds of minimum-wage workers are adults; they are over 20 years old. That is according to the Bureau of Labor Statistics. There is a mythology out there that somehow minimum-wage workers are not really responsible for much of their family income, they are middle class kids taking part-time jobs, taking summer jobs. That is simply not true. Listen to what I am about to say because this perhaps is the most important statistic apart from the fact that the minimum wage has declined so much over the years adjusted for inflation.

What I am about to say is this. The average minimum-wage worker is responsible for half of family earnings. The average minimum-wage worker is bringing home half of family earnings. That means that if that minimum-wage worker is working full-time, $8,500, that family, that average family with an average minimum-wage worker, is earning $17,000 a year. It is hard to make it for a family with two wage earners or three wage earners. Sometimes these families I talk to, they are taking three jobs between two parents. They are taking another part-time job, they are not even seeing their kids, they are working so hard.

You know, people say that a lot of people in this country are not working hard. That is absolutely wrong. People in this country are working hard. They are working harder than they have ever worked before. Raising the minimum wage is not only a decent thing to do, raising the minimum wage is necessary if we want to help working families.

I am not suggesting to you that going from $8,500 a year to $10,300 a year is magically going to help working families make it in this country, no, but it is a step, it is a step in the right direction. We also have to get serious about education and job training.

Education and job training. The President in his 1995 Budget, in his 1996 Budget, has called for increases in education and job training, helping young people with college, helping them afford college, helping people get the job training they need if they are disadvantaged, helping them get better jobs. We know that for every year of job training beyond high school, future income increases 6 to 12 percent a year.

I just came from another hearing just minutes ago on the Labor Department's 1996 Budget. A room of us heard that there has got to be a big recision even in the 1995 Budget taking away money more for education and job training. I'll tell you honestly, we cannot attack the working people of America. We have got to make it possible to get ahead in this country.

This should not be a partisan issue, Mr. Chairman, Members of this Committee. It must not be a partisan issue. Raising the minimum wage, giving people adequate education, giving people adequate job training, that is what the American work ethic is all about, not handouts, helping people help themselves.

Now I understand there has been a lot of evidence back and forth this morning about whether a minimum wage increase of the sort that the President is talking about will cost jobs. Now obviously, you don't have to be a rocket scientist to understand that if you raise the minimum wage $10 an hour, $15 an hour, yes, that is going to cost jobs. On the other hand, if you raise the minimum wage one cent an hour that is not going to cost jobs. The question is, where do you get the job loss? At what level of increase of the minimum wage does it start costing jobs? And the empirical, factual, detailed research over the last few years, spearheaded by economists not paid by the National Restaurant Association or the National Federation of Independent Businesses, the top academic economists in this country from the top schools in this country doing hard work looking at the effects of minimum wage increases recently have concluded that it has a negligible effect on jobs.

Now put everything I have said together. There is a growing and growing, greater and greater gap between the incomes of Americans. The middle class is under greater and greater stress. People are working harder and not making it. There are growing legions of the working poor in this country. We are engaged in a great debate, how to get people off of welfare and into work. Americans are starting to disbelieve the American dream.

We have got to make work pay, we have got to raise the minimum wage, not by $10 an hour, by 90 cents over two years. We can do it without costing jobs. We can give people a little bit of a cushion, not much of a cushion, a little bit of a cushion, from $4.25 to $5.15, and add to that better education, job training, the opportunity to get ahead on your own steam, which the President wants to do and is calling for in his budget. We have a formula for reversing the present trends towards a two-tiered society.

People come up to me, average Americans, waiters, waitresses, people in hotels scrubbing the floors. They say to me, "I hope you convince Congress to raise the minimum wage. I hope you convince people that my job is worth $5.15 an hour, that I have dignity, that I should have respect. I don't want to be on welfare. I don't want to be dependent on this nation, on taxpayers, I want to make it on my own."

Mr. Chairman, Members of this Committee, look at the evidence, the recent evidence. Look at what we are trying to do in this country, invest more in education and job training, as the President wants, raise the minimum wage, make it possible for Americans to get ahead on their own, and once again, once again, recapture the American dream.

[The prepared statement of Secretary Reich and the *Making Work Pay, The Case for Raising the Minimum Wage* study appear in the Submissions for the Record.]

Representative Saxton. Mr. Secretary, thank you very much.

I didn't get a chance to say this because I had to leave temporarily when you came in, but thank you for your testimony and welcome to the hearing today. We appreciate your being here.

I don't know whether you intended for Mr. Krueger to --

Secretary Reich. Mr. Chairman, I briefly introduced him, but let me introduce him more fully if I may, and if there is time I would request that he be given a couple of minutes to talk because I think that some of his work is relevant and certainly has been discussed by previous panels.

Sitting beside me to my left is Dr. Alan Krueger, a distinguished economist, professor at Princeton University, who is on leave this year at the Department of Labor as the chief economist. I want to hasten to add lest there be any indirect impugning of his integrity, and I am sure no one would even think of doing that, that he did this research before he ever dreamed of coming to the Labor Department and it was independently done, it was not financed by anybody with an interest in this particular issue or the outcome of this particular matter.

Mr. Chairman, I would request that Dr. Krueger be given a couple of minutes if it is possible.

Representative Saxton. We are just trying to figure out the logistics of how to get this voting done.

Secretary Reich, if there is time for Dr. Krueger, and I apologize, we have got "Mr. Krueger" on your nameplate.

Mr. Krueger. I have been insulted a lot worse.

Representative Saxton. Let me just say to you, Secretary, that I think you and I and probably everybody that is interested in this subject that is in this room has the same goal, and I think it is also certain to say that we perhaps have a different way of attaining the goal, or maybe it is not quite the same goal, but it is in general to make it possible in one way or another for average working people to make a good living and for people who are below average to increase their lot so that they too can enjoy a higher standard of living in the way of a better wage.

The question really boils down to a philosophical difference in point of view that I have with you, and that others here can express themselves over, and that is whether it is necessary and productive for the Government to mandate an increased wage for the lowest workers, which some people, I think correctly, conclude has a ripple effect on other wages at other levels, or whether we should use and rely on the free-market system to make it possible for people to attain higher wages through productive behavior, through work, through education, through our free market system.

I find your testimony intriguing and interesting because, on the one hand, you, I think, concede when you say that you know we can't raise the minimum wage to outlandishly high level because that would cost jobs, sounds as though you concede that in general you believe that the law of supply and demand is really a law that is correct because you can see that in that case raising the level of wages would decrease job opportunities.

But in the special case of low-wage earners you argue that increases in lower wages would not have the same effect, in this case a 90 cent raise which amounts to a 21 percent increase in the minimum wage, and you argue that won't have a negative effect, and in fact I think it is accurate to say that you have stated that it could have the effect of increasing job opportunities.

Can you explain to those of us who are not versed in this what, to me, is a new concept of a law that is a law sometimes but not all the time, how this precisely works, and take me through an example at the level of job opportunities, at the firm level, and explain how an employer has the ability to hire more workers when Government forces them to pay more for that commodity, in this case, labor?

Secretary Reich. Mr. Chairman, let me repeat what I said before lest it be misunderstood, and I want to make sure that I was understood clearly.

Obviously there is a price at which if the minimum wage were increased the cost of labor would be too much and therefore you would suffer job loss. As I said in my example, if you increase the minimum wage by $10 or $15, whatever it was, that would probably certainly result in job loss. But by the same token -- and I want to concentrate on the other side of my equation too as you left that out -- if you increase the minimum almost all of us would agree -- and I'm sure you would agree -- by one penny an hour, we would hardly expect employers to throw out employees.

The question really is, what is the level of increase that can be sustained and is likely to be sustained based on empirical research, based on what we know factually. This is not theoretical supply and demand, this is how firms actually operate. What is the level that can be sustained without resulting in job loss?

Now let me give you the broad picture, and then, with your permission, I would like to have Dr. Krueger respond to part of your question because he is responsible for some of the research that has been done in recent years on this subject.

Representative Saxton. I apologize, but I just have a very difficult time understanding how a generally accepted law of economics, or principle of economics, applies on some occasions and doesn't on others. Let me go back.

Secretary Reich. Mr. Chairman, I was about to answer your question.

Representative Saxton. Well, I know you were going to give me an answer. I have no doubt about that. Even when you compared a few minutes ago a one-cent increase in the minimum wage to a $10 increase in the minimum wage, even a one-cent increase in the minimum wage would certainly have some minimal, microscopic perhaps, effect, and if a law is a law and if it works, it works most of the time or all the time.

Let me hearken back to an old-fashioned economic theory, but most economists I have talked to believe that the market sets wage rates on the basis of what a worker can produce. I have somebody who lives in the Philadelphia area who recently brought that very clearly to my attention in describing his scheme for providing incentives for people to work and earn more, and minimum-wage workers, through productive activity, in a very short period of time can actually earn as much in this scheme as $11.50, an hour but employers will not pay an individual $5.15 an hour if what he produces is only worth $4.50. That is a pretty -- that is so clear to me in terms of what I understand and what I have learned about economics and how it really works that I have a very difficult time accepting the proposition that a 21 percent increase in the minimum wage will have -- I was going to say no effect but, in your words, a positive effect on job growth.

Secretary Reich. Well, if you would let me respond to your question, Mr. Chairman, I would love to try to explain.

There are two issues here. One has to do with a firm and what happens inside the firm. The other has to do with the labor market as a whole.

Let me first of all look at the firm, and Dr. Krueger can explain this in more detail, but most employers of minimum wage workers operate at very high rates of vacancy and turnover. That is, their work force is turning over very rapidly. At any given time they have openings. That is very costly for them. They have to train new people. They also have to fill those vacancies. Many of those employers find that with a modest increase in the minimum wage they reduce vacancy and they reduce turnover.

Representative Saxton. Okay.

Secretary Reich. Why is that?

Representative Saxton. Can't employers figure that out for themselves? Can't they choose to raise, as my friend in Philadelphia does, Ed Satell -- can't they choose to make those adjustments in their minimum wage rather than to have the Federal Government mandate a minimum wage which Mr. Krueger says is not meaningful in New Jersey because it doesn't hurt the employment picture? As a matter of fact, I think the reason it didn't hurt the employment picture in New Jersey is because those firm that is you studied, the McDonalds and the Burger Chefs were already paying $7.25 an hour.

Mr. Krueger. Excuse me, if I may answer that question, which you also raised earlier. A third of them were paying $4.25 to begin, as were a third along the border in Pennsylvania in 1991 or 1992 when we did our first wave of the study.

Representative Saxton. But you have got to stipulate, Dr. Krueger, that when two-thirds are earning more than that, that there is a less likely chance that it is going to have an effect on employment than in a town or a state or a region of the country where they are all working for $4.25.

Mr. Krueger. May I answer that with a chart?

Mr. Krueger. This shows within New Jersey, which is a state of interest to both of us, there are restaurants that paid $4.25 initially in 1992, about a third of the sample. About another 40 percent or so paid between $4.26 and $4.99 an hour, and the rest were above $5 an hour.

So what we have done with our data is to look specifically at the restaurants in New Jersey that paid $4.25 an hour, and before the minimum wage increase you can see they had fewer employees, many of them said in part because they had trouble attracting workers.

May I just finish?

Representative Saxton. I am not interrupting -- I am not interrupting --

Mr. Krueger. -- that you raise, sir.

Representative Saxton. No, I'm sorry. I am not interrupting you -- I'm interrupting you because I have to leave and we are going to have to recess for a couple of minutes. Can you stay with us?

Secretary Reich. Oh, certainly. This is important enough, we will stay all day.

Representative Saxton. Thank you.

Mr. Ewing should be back in just a couple of minutes, and he will take over, and so the Committee stands in recess until he gets back.

[Recess.]

Representative Ewing. [presiding]. Thank you for your indulgence during the vote.

Dr. Krueger, you were talking about a certain situation. Do you want to proceed?

Mr. Krueger. Sure. What I would like to do if it is all right with you is describe a little background of this research to put it in context.

Representative Ewing. Go right ahead.

Mr. Krueger. Thank you.

I have studied the minimum wage for the last five years or so, and I was drawn to this topic by many of the same puzzles that Lowell Taylor talked about. The value of the minimum wage fell considerably in the 1980s once one adjusted for inflation. Nevertheless, we did not see the kind of growth in teenage employment that one would have predicted after adjusting for business cycle effects, and that was the point that Professor Welch has made in his paper.

Moreover, the typical method that was used to look at the impact of the minimum wage based on time series studies no longer continued to find an effect of the minimum wage on employment when more and more years of data were added. There is a very important paper by Professor Alison Wellington that was published in the *Journal of Human Resources* on this topic.

So what a number of economists tried to do was to look for other ways to look at the impact of a minimum wage increase on employment, and I have to admit that when I started this research I thought we would very much prove the conventional wisdom is correct, and for an economist it is always easier to support the conventional wisdom than to not support it.

So a couple of co-authors and I came up with a methodology which we thought would help convince even a skeptic that the minimum wage has a negative effect on employment. In a number of studies -- I think the best one compared New Jersey and Pennsylvania -- what we did was to conduct a survey of fast food restaurants in New Jersey as well as along the border of Pennsylvania.

New Jersey raised its minimum wage to $5.05 an hour on April 1, 1992, giving New Jersey the highest minimum wage in the country, and what we expected to find was -- when we re-interviewed these restaurants about eight months later -- what we expected to find was that employment would decline. Fast food restaurants have extremely high turnover. It is very easy for them to adjust their employment just through attrition. And what we found was rather surprising. What we found was, in fact, employment fared better in New Jersey than it did in Pennsylvania, and let me just display that with this chart.

Mr. Krueger. This shows you, in blue, employment in New Jersey and Pennsylvania prior to the increase in the minimum wage in New Jersey and then in yellow what happened to employment eight to nine months after the minimum wage increase. You could see in Pennsylvania employment declined, which I suspect is a result of the recession that occurred in this time period. The recession was actually worse in New Jersey if you look at the rise in unemployment figures. Nevertheless, in New Jersey we saw this slight increase in employment.

The difference, if you contrast these, could be a result of sampling error just by chance. This is not a statistically significant increase, but nevertheless it was not the decrease that we expected, and we would have expected a decrease at least as large as Pennsylvania's, probably even larger.

Now one concern we had was, well, maybe all these stores in New Jersey were not affected by the increase in the minimum wage. That, in fact, was not the case. Most of the restaurants were paying less than $5.05 an hour, and in fact they were quite upset about the rise in the minimum wage.

We broke down the data further, just looking within New Jersey, and here you can see we had stores that initially paid $4.25. These were the ones that were required to raise the workers' wages the most, 80 cents, to meet the new minimum wage. Some were paying between $4.26 and $4.99. They also had to raise their entry-level wage but not by as much, and the ones that were paying five dollars or more essentially were already in compliance with the new minimum wage law, and were unaffected. And what we found was that the high-wage stores, they looked just like Pennsylvania, employment declined. At the lowest-wage stores -- and this gets at Mr. Saxton's earlier question -- that perhaps they weren't affected by the increase. We know that these stores were paying $4.25. We actually saw a slight increase.

Now again, I would want to make clear that this slight increase that we see is not statistically significant. We could reject, however, that this is different from this. In other words, the employment record at the firms that were required to raise their minimum wage was different from those that didn't need to change wages in order to meet the law.

We have probed these results in a number of other ways, and we found it to be quite robust, and a number of other checks were done as well. For example, we could use data for all of New Jersey and all of Pennsylvania for all restaurants, not just fast food restaurants, and we could follow that through 1994. Using the latest BLS data through 1994 we actually see faster growth in restaurant employment in New Jersey.

So after this research was conducted and after putting this together with the other research on the topic, I and a number of other economists, I think, began to question the conventional wisdom.

Now one thing I should stress -- and this came up a little bit in the previous panels -- the conventional wisdom was never that raising the minimum wage caused a huge amount of job loss. I think the most plausible estimate in the conventional wisdom was interpreted as a relatively moderate decline in employment. And I think that this new work has led economists to seriously question that conventional wisdom, and a number of theoretical models have been proposed. I think one of the important aspects of this work is that it has generated new theoretical research to try to explain why minimum wages, moderate increases in minimum wages, might not negatively impact employment. I think

Lowell Taylor and Jim Rebitzer's paper on this topic is an important one, a number of other papers have appeared.

It turns out there is an older literature which suggests that by raising the minimum wage employers would be able to fill their vacancies more quickly, they would be able to recruit workers more quickly, the workers would be more loyal, turnover would decline. That would help offset the cost of the minimum wage increase. So this led, I think, a number of economists to question the conventional wisdom.

Representative Saxton. Thank you.

Mr. Secretary, this room is going to be used by someone else at two o'clock, and all of this C-SPAN equipment has to be removed, and so we are told that the latest we can occupy the room is 1:30 p.m., so just for everybody's information.

Did you want to ask some questions, Mr. Stark?

Representative Stark. If I may, Mr. Chairman. Actually I would like to ask the Secretary two questions.

The first one -- and you might wait, Mr. Secretary, I will try to ask them both. But there were some factual questions this morning about the extent to which a hike in the minimum wage would actually benefit low-income people. We have heard a lot about what it is going to do to the pizza business, but what is it going to do, is one part of my question, to lower-income people. Then I happened to meet Mr. Fuller who is our witness this morning.

Mr. Fuller and I didn't have a chance to get into a dialogue, but he, I think, reinforced a feeling that is abroad in the land. He just doesn't want -- and I think this is a fair interpretation of what he told me -- he just doesn't want the Government to tell him what he ought to have to pay as a minimum wage. He resents you and me, as he sees us representing government, intruding in his life. Probably how you make a Republican: Intrude too much in their lives as government and they will begin to resent government.

I would like to know what you would tell Mr. Fuller about why it is necessary. Why do we need this law at all? We have got a lot of good-minded business people who are fair, God-fearing members of their community. So, one, what will this do to help poor people; and, two, what do we need the darn law for anyway?

Secretary Reich. Well, number one, there are approximately 11 million Americans working right now at wages between $4.25 and $5.15 an hour. As I said in my opening remarks, many of those hard-working Americans are coming dangerously close to falling into poverty, or they already are in poverty. They are coming very, very dangerously close to being on welfare, and they don't want to be in poverty, they don't want to be in welfare, they want to support their families. A hike in the minimum wage would help these 11 million Americans. It might help a few million Americans above them in terms of a small ripple effect upwards.

The question we are addressing here is ultimately the question that must be addressed in all public policy decisions: Do the benefits of doing something outweigh the costs and the burdens? I think what you are hearing here from not only one of the most distinguished economists who has studied the issue but many other economists who have studied the issue, in fact, an entire group of economists who have done the research -- not theoretical research, I am talking about factual, hard, empirical research -- is that we can afford a small, modest increase in the minimum wage around 90 cents with negligible, if any, job costs.

So to put it quickly and shortly, a rise in the minimum wage means the difference for so many people between poverty and not poverty and if they have a job.

Let me just answer the second part of your question, the businessman who says, "Why should I be forced to do anything?" Let me first answer it by referring to basic principles. We want to give business as much freedom as possible, but we set minimum standards, minimum standards of decency. We say you may not hire children and subject them to 12 hours of labor. We say that you cannot subject people to sweatshop conditions. You have to maintain minimally safe workplaces. We have had experiences in this country, unfortunate experiences, over the past 60, 70, 80 years, 100 years, with employers who took advantage of employees, who subjected them not only in terms of wages and working conditions but in every other way, intolerable conditions, and we want as a society to set minimally decent levels of wages and working conditions. This is something that, as a society, we have decided to do, and I think as a matter of principle, unless you are going to say wholeheartedly let's let anybody hire children and have forced labor or whatever you want to do, we do have to draw some limits.

Now the question in particular here: Do the benefits exceed the costs? If we get more people out of poverty, more people into a job that pays a livable wage, remember, we pay less as a society in terms of welfare costs, we pay less as a society in terms of food stamps, we pay less as a society in terms of all of the ancillary costs that we put up with when we have somebody in poverty, including crime and deviants. There are social benefits. We all share when we create jobs that pay affordable wages, jobs that pay living wages.

Representative Saxton. Mr. Secretary, I'm sorry. May I interrupt? Because of time constraints I would like to go on to the next questioner. Thank you.

Representative Stark. Thank you, Mr. Secretary.

Representative Ewing. Mr. Secretary, thank you for being here today.

I am going to assume that some of the very knowledgeable gentlemen that have testified here today with academic degrees, extensive academic degrees, were going to differ on what the minimum wage increase might do to employment and to the loss of jobs or to increase in jobs. I want to talk a little about some of the politics of it, and everything in this country is a little political.

I wonder why this Administration appeared to be opposed to a minimum wage increase two years ago when your party controlled both Houses of the Congress and now, since that has changed, come forward with this increase with under the 104th Congress.

Secretary Reich. Let me be very clear about this. The President sought during the campaign, and was very, very clear during the campaign, he wanted to increase the minimum wage but health care came first. He proposed a very ambitious health care plan that included employer mandates. He stated repeatedly that so long as employer mandates were on the table he did not want to take any conceivable chance that the combined cost of employer mandates and an increase in the minimum wage might cost jobs, and he said that we will get to the minimum wage once that employer mandate appeared to be off the table. That employer mandate now appears to be off the table.

Nobody is discussing requiring employers to carry some of this substantial part of the health care burden, and therefore, therefore, it is possible to open up again the minimum wage issue.

And if you allow me to make one more point, which is a political point, the most recent *Times-Mirror* poll out just last week, a week ago Friday, showed that 79 percent of Americans are in favor of the President's plan to increase the minimum wage, and what might have even more bearing for, you sir, is that over 60 percent of Republicans also supported the President's plan to increase the minimum wage.

Representative Saxton. Would the gentleman yield?

Representative Ewing. Yes, I will.

Representative Saxton. I recall, Mr. Secretary, not to be funny, but I recall having seen polls about health care and the great majority of the American people supporting the President until they found out what was in his plan, and I believe that when the American people find out what we think the empirical evidence shows quite clearly with the exception of, I guess, Messrs., I guess, Krueger and Card's study, that this has a deleterious effect on employment where there is a good probability that it does. I don't think you will see a 79 percent approval rating. I just wanted to make that point for the record.

Representative Ewing. Yes.

I want to ask one other question.

Secretary Reich. Mr. Chairman, if you will allow me just to make one small point in response.

Representative Saxton. Yes, sir.

Secretary Reich. In 1989 a majority of Republicans did vote for the same minimum wage increase we are talking about now. It is not just Dr. Krueger, it is not just Dr. Katz at Harvard, it is not just Dr. Card at Princeton, we have an entire group of economists who have looked at the evidence, not the theory.

You know, as Isaac Newton one opined, when conventional theory has got to confront observable facts that conflict with it, which is it that has to give way, conventional theory or the observable facts? And I believe in this instance, as in most instances of public policy making, we have got to go with the observable facts.

Representative Saxton. Well, I am going to yield back. You know, we could have a great debate, and maybe we ought to do that. You and I appeared on some CNN show together not long ago.

Secretary Reich. I would love to have a debate. In fact, one of the frustrating things, Mr. Chairman, is that Dick Armey, the Majority Leader of the House, who has been one of the most vocal opponents, he says that he doesn't believe that there should be a minimum wage, he is going to oppose it with, he says,-- every fiber of his being. He has said with great stentorian --

Representative Saxton. And he is a big guy, so he has got a lot of fibers.

Secretary Reich. He has more fibers than I do. But I challenged him to a debate, and he will not debate me. I would love to debate him, and you tell me why he won't debate me. Nightline wants us to debate. I have all these programs that want us to debate on this, and I can't get him to debate.

Representative Saxton. Mr. Ewing.

Representative Ewing. Mr. Secretary, my last question is somewhat -- won't require an answer but --

Representative Saxton. I bet you'll get one.

Representative Ewing. I bet.

I hope you will carry a message back to the Administration how some of us feel on our side of the aisle, and it goes with this. If the Congress doesn't pass the minimum wage increase that the President has suggested, will he issue an Executive Order to increase minimum wage like he did the Mexican bailout and the striker replacement, two very important issues that he has tried to usurp the authority of this Congress on to do his will?

Secretary Reich. Let me make --

Representative Ewing. And I would hope, Mr. Secretary -- pardon me -- that message would be carried back to the White House.

Secretary Reich. If I may respond, the peso situation was not an Executive Order as such. The President utilized a legal process, a fund available to him with regard to stabilizing currencies. The Executive Order being prepared with regard to the permanent replacement of striking workers has many precedents. In fact, the most recent precedent I am aware of occurred in 1992. As you must recall, in 1991 many Republicans sought legislation which would require employers to post notices at workplaces that workers did not have to join unions. That legislation was voted down. President Bush then issued an Executive Order to all Government contractors that they would have to post those notices.

At that time I don't recall that there was any hue and cry about the President's power with regard to his procurement authority to ensure that Government was getting products and services as Government needed them. There are many others precedents, sir, for what the President is proposing.

Representative Ewing. Well, thank you, Mr. Secretary, but I think the message would be well if the President would heed it, and there are questions about his legal authority to do both.

Representative Saxton. Mr. Mfume.

Representative Mfume. Thank you very much, Mr. Chairman.

Mr. Secretary, thank you for appearing here today.

I think, as I recall, Sir Isaac Newton concluded that the observable fact outweighed the conventional wisdom.

Secretary Reich. I believe, Congressman, that all science proceeds on that basis.

Representative Mfume. Mr. Secretary, this has been a rather long hearing, and it has been rather feisty and testy at times. There have been moments when all of us on both sides of the aisle with strong feelings about this have raised their voices. There have been some accusations and innuendo. There certainly has been some partisanship, and I include myself. It has been a very emotional, and remains a very emotional issue. Even the Chairman and I -- for whom I indicated a moment ago I have a great deal of respect -- disagree vehemently on this issue, and I suspect that many Members of the full House and Senate will do so.

But you know, really, once we remove that veneer and we look at the essence of what we are dealing with, it really comes down to almost a historic conflict, a conflict between workers and management. I understand, as has been put forth today by panelists and by some Members of this panel, the concerns of business people who have to feel some concern when they look at what they consider to be a mandate, or what they may consider to be government regulation that may be excessive. I understand that, and I understand historically there has always been from the business community that point of view. And then we have on the other hand the needs of workers, people who are making $8,500 a year, two-thirds of whom are adults with families to take care of, and I don't know how many in this room or in this panel, or may be watching this, could live off $8,500 a year, and it raises the question that we have got to address that in some way.

The challenge is trying to address both, resolving the conflict by hopefully making business a part of the solution and hopefully including people who are so much affected by what we do here, who make a minimum wage, who want more than just a scant living, they want some real dignity with the work that they do. Interestingly enough, every time, or almost every time, we have raised the minimum wage in this country we have done so in a bipartisan way, Democrats and Republicans.

Listening to the concerns of both, and not raising the wage to a ridiculously high level, because as you indicated before, that would have a very negative effect, but raising it in such a way that you are able to bump up -- just a bit -- the standard of living for those people with low wages, while at the same time taking into concern the business people like Mr. Cain, and others, who were here today, who make the argument that we don't need it, it is difficult.

Someone on the panel that preceded you, indicated, and I quote, that these people who live in the inner city and these people who live in the counties are not bad people, they just don't have skills. Well, many don't have skills, and most are not bad people, but they work hard every day.

They catch the early bus, they clean the bedpans, they wait the tables, they pick up our garbage, they cook, they mop, they sew, they do whatever they can. They work in factories. They make $4.25 an hour. They work hard every day. They are good people. But they will never have skills, and they will never have a sense of worth and they will never be able to do what all of us enjoy doing with our own lifestyles making $8,500 a year.

So I don't see how we run away from this issue. We either vote it down or we vote it up, but we don't run away from it, and all of us at one point, or another, will have to leave the safety and security of this hearing room and go out and face those people and look at them and ask ourselves, could we live off of $8,500 a year. Still, we have to deal with business people, and somehow or another convince them that this is not always an assault on business, this is a way to try to keep the fabric of our Nation together, and maybe that is what the minimum wage boils down to.

So I only had that observation, no question, except to suggest, and to observe again, that it clearly is a difficult and wrenching issue for this Congress clearly. I would hope that it would not have been. I would hope that we would have done as we have done in the past, found a bipartisan way to reach middle ground, and perhaps it is not too late, but my sense tells me that it is.

Thank you, Mr. Chairman.

Representative Saxton. Thank you, Mr. Mfume.

In concluding, I guess I would just say once again, Mr. Secretary and Dr. Krueger, thank you for being here.

I agree with much of what my colleague just said, particularly with regard to the needs of workers. This debate is not about a conflict between management and labor. I think this debate is about how best to help workers. Is it best to help workers by having the Federal Government under this Administration oppose and enact yet another mandate similar to the health care mandate, similar to the mandate included in the tax increase in 1993, and now another mandate, or is there a better way to go?

As you correctly point out, Mr. Armey and I, and Mr. Ewing and others believe there is a better way to go. It is called getting Government out of the business of having so much to do with what our business people do, getting the Government out of the process of affecting the process of job creation and economic growth, and so while we will disagree, hopefully amicably and firmly in the future, as far as today's hearing is concerned I am going to draw it to a close, we have to vacate the room, and we look forward to having discussions with you in the future.

Thank you very much.

Secretary Reich. Thank you.

[Whereupon, at 1:26 p.m., the Committee was adjourned.]

Statement of Senator Connie Mack
On President Clinton's Proposed Minimum Wage Increase
Hearing of the Joint Economic Committee
February 22, 1995

I am sorry I can not attend today's hearing. However, I believe that the subject matter before the committee is extremely important, and I am grateful to the committee's co-chairman, Jim Saxton for so ably overseeing today's proceedings.

Wage growth could best be achieved by cutting government imposed burdens on the private sector.

Despite continued economic growth, many Americans' standard of living is not improving. Real household income fell last year, and Americans are working longer hours for less. Unfortunately, President Clinton's suggestion to artificially increase the minimum wage is nothing more than a smoke and mirrors response to declining incomes. The sad fact is that as government has grown, the burdens it has imposed have dragged wage growth down.

We all want to see wages grow, but the President's desire for government-mandated wage increases won't work. More likely, it will cost jobs for those workers who can least afford to be put out of work, and crush entry-level opportunities for low-skilled workers.

If the goal is actually boosting wages, not political posturing, then the answer lies in freeing the private marketplace from a government stranglehold of high taxes and regulations. If we will only reduce the time, resources, and money confiscated by the government, the economy will realize its full potential and wages will rise -- just as we all want them to.

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OPENING STATEMENT BY VICE CHAIRMAN JIM SAXTON JOINT ECONOMIC COMMITTEE HEARING ON PRESIDENT CLINTON'S PROPOSAL TO INCREASE THE MINIMUM WAGE FEBRUARY 22, 1995

During the course of Bill Clinton's presidency, I have had frequent occasion to criticize his policies — not because I usually disagree with his objectives but rather because his proposed policies are so often destructive and self-defeating. But, in spite of my sharp disagreement with Mr. Clinton on matters of policy, never have I questioned this President's deep capacity for human feeling nor his compassion for others, especially for the least fortunate among us. Neither have I ever doubted Bill Clinton's intellect.

So, I am forever grappling with a puzzle where the President is concerned: How can a man who is so smart, so feeling and so compassionate, how is it that he continues to come up with such destructive policies — policies that actually threaten to harm the very people he aims to help? I can find only two explanations, and I am convinced that the President's proposal to raise the minimum wage from its current level of $4.25 per hour to $5.15 per hour — by 21 percent — is the product of both of these explanations.

First, it is pretty clear that some of the proposals put forth by this Administration are never intended to become law. They are politically motivated to score points with special interest constituencies, such as labor unions, and to embarrass the Administration's political opponents.

The political motivation behind Clinton's minimum wage proposal is crystal clear. Why didn't the President propose this idea to the Congress last year when Democrats controlled both Houses of Congress and presumably could have passed it into law? Why did the President say of the minimum wage during the last Congress that it is "the wrong way to raise the incomes of low-wage earners?"

Why does the very think tank (The Progressive Policies Institute) founded by the "New Democrat" group which Bill Clinton chaired before becoming President (The Democratic Leadership Council), why does this group oppose an increase in the minimum wage? Because the PPI understands that the vast majority of minimum-wage workers are in families with income well above the poverty line. Because the Democrat PPI knows that raising the minimum wage is self-defeating and hurts the very people it is intended to help — and the President knows it too, or at least he knew it up until the November election.

Now, I never underestimate the power of bad economic advice, especially when wrong-headed advice appeals to the heart and coincidently reinforces an urgent political need — which is what we have going on in the case of the minimum wage. What I fear is that Secretary Reich and his friends who circulate in and out of the Labor Department from academia may have actually convinced the President that their scheme to raise the minimum wage will work.

And this brings me to the second reason this Administration continues to come up with such ill-advised ideas. President Clinton gets incredibly bad economic advice from individuals who have a superficial and incomplete understanding of the way markets work. This is not surprising from an Administration that is populated by so many people who never have held a real private sector job nor had to meet a payroll.

For example, last year during the national health care debate, Americans were stunned to hear their President lecture Herman Cain, the owner of Godfather's Pizza who is one of our witnesses today, not to worry about the Clinton health insurance mandate on employers because Godfathers could just increase the price of its pizzas to offset the cost of the mandate. Evidently, President Clinton's economic advisers believe that entrepreneurs can make as much money as they want just by raising prices high enough. Obviously, too many of the people advising the President do not have a firm grasp on the law of supply and demand.

This same lack of understanding is exhibited with regard to government taxation. This Administration appears to believe that government can raise as much revenue as it desires just by increasing tax rates high enough. In 1993, the Clinton Administration hit Americans with an enormous retroactive tax increase and steeply higher marginal tax rates. Even with a tax increase that was largely retroactive, there is already solid evidence that the Clinton tax increases of 1993 are generating less than half the expected revenue increase. Next year, after everyone has had a chance to fully adjust their behavior, one can expect virtually all of the anticipated revenue increase to evaporate.

Now, the President and his Labor Secretary want to apply the same kind of "quack-economics" to the minimum wage. Mr. Reich has actually said that raising the minimum wage increases employment. As we will see during the course of this hearing, there is virtually unanimous agreement among economists that raising the minimum wage kills jobs and raises unemployment. Economists can agree on little else, but on this tenet, they are in full agreement. This principle is demonstrated in the attached chart titled Unanimous View of Economists. The minimum wage is measured along the vertical axis and the rate of unemployment is measured along the horizontal axis. As the bold line clearly shows, increasing the minimum wage drives up unemployment.

Mr. Reich and his academic friends would have us believe just the opposite. Under Mr. Reich's unconventional theory, raising the minimum wage actually leads to more jobs and lower unemployment. (See the attached chart titled The Reich Curve.) Why then don't we just raise the minimum wage to $300 or $400 an hour and pay everyone lawyers' wages?

We are about to hear two very different interpretations of how the minimum wage affects the economy and individual workers. The unconventional interpretation held by the President and Secretary Reich asserts that raising the minimum wage increases the welfare of poor citizens, has little adverse impact on unemployment and may actually lead to more job creation and business starts.

Mr. Reich will cite 12 studies, the "Questionable Dozen," as evidence of this unconventional view. Four of these studies are simply variations on a theme by the same three individuals, one of whom was formerly Mr. Reich's Chief Economist at the Labor Department and one who is Reich's current Chief Economist at Labor. One of the studies is an internal Labor Department report. Two of the papers are unpublished and have not even been subject to peer review. Two of the twelve studies were of foreign countries in much different economic circumstances. And, one was not even a study but simply a "Comment."

The other interpretation, the conventional one which is held by virtually all serious economists, states that raising the minimum wage destroys jobs and hurts most the very people it was intended to help — the poor and unskilled. This mainstream economic finding is based on more than 25 years of solid empirical research conducted by hundreds of economists from all political persuasions across the breadth of this country.

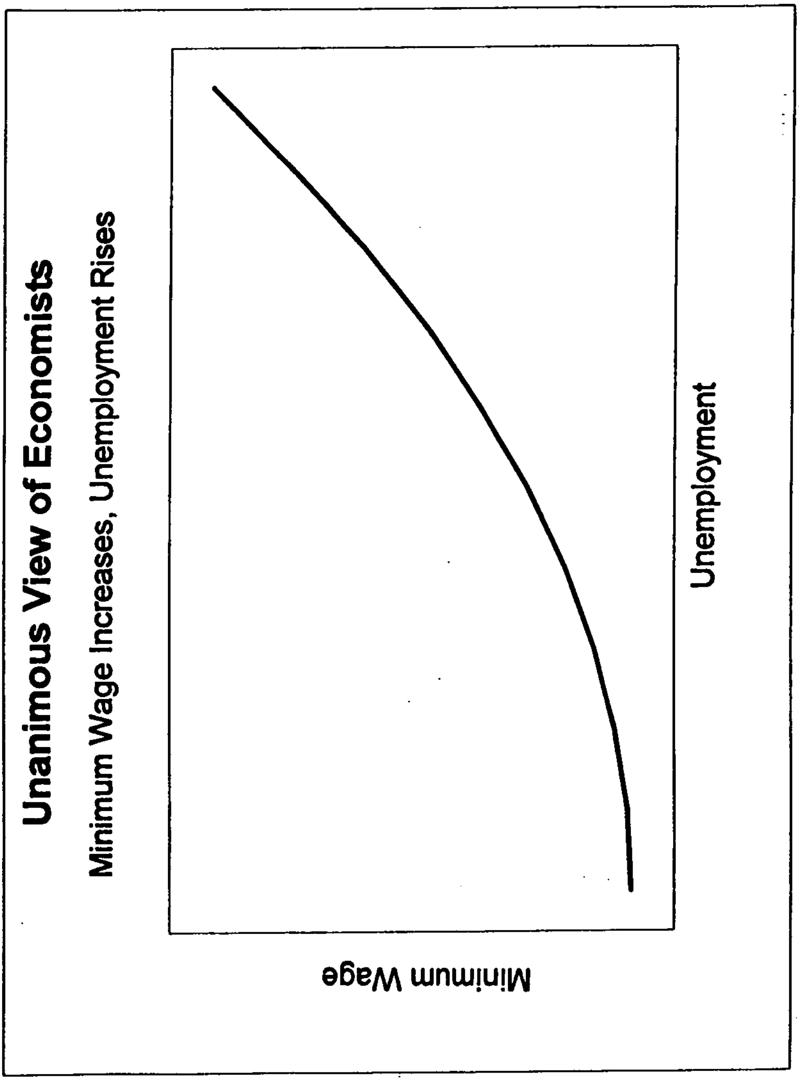
Which interpretation are we to believe? Let's start with a few facts from the studies on minimum wages.

In 1981, the Congressionally-mandated Minimum Wage Study Commission concluded that a ten percent increase in the minimum wage reduces teenage employment by one to three percent. The President proposes raising the minimum wage by a little more than twenty-one percent. Based upon the findings of the Commission, we can anticipate that between 130,000 and 400,000 jobs will be lost if Clinton has his way.

Fifty-seven percent of those that benefitted from the last minimum wage increase were from families with household income greater than $45,000. As Secretary Reich said in 1993, "After all, most minimum wage workers are not poor."

From 1981 to 1990, the minimum wage did not rise and teenage unemployment fell from twenty-five percent to fifteen percent. Since the minimum wage increase in 1990 the teenage unemployment rate has risen to more than twenty percent.

In conclusion, compassionate politicians and well-meaning government programs like the minimum wage cannot repeal the law of supply and demand any more effectively than they can repeal the law of gravity. In fact, Majority Leader Dick Armey says without hesitation that it is the Minimum Wage Law that ought to be repealed!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Minimum Wage Increases, Unemployment Rises
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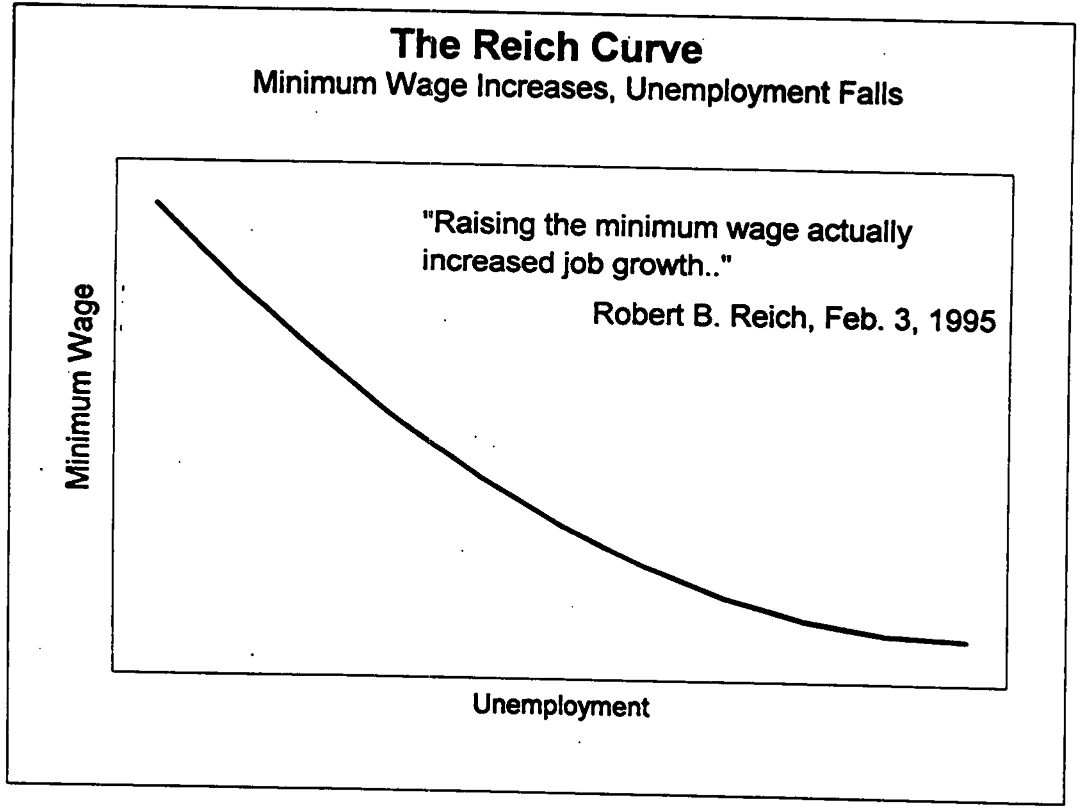
The Reich Curve
Minimum Wage Increases, Unemployment Falls
"Raising the minimum wage actually increased job growth.."
Robert B. Reich, Feb. 3, 1995
Minimum Wage
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SAXTON: CLINTON'S MINIMUM WAGE PROPOSAL KILLS JOBS AND REEKS OF POLITICS

"The President accepted bad economic advice," said Congressman Jim Saxton (R-NJ-03), Vice-Chairman of the Joint Economic Committee (JEC), "when he decided to advance arguments in support of an increased minimum wage. And, worse yet, the facts that led to this new Administration agenda indicate a motive based on scoring points with special interest constituencies and President Clinton's perceived need to embarrass political rivals."

Saxton made the remarks at a JEC hearing on the Administration's proposal to increase the minimum wage from $4.25 to $5.15 -- reflecting a 21 percent increase. Saxton chaired the hearing at the request of the House Speaker, Newt Gingrich.

"The economic facts are virtually undisputed. That is, an artificial increase in minimum wage serves to encourage an influx of job seekers -- *but will, at the same time, stifle the number of job opportunities.*" said Saxton.

"The President is not unaware of these studies. In fact, considering his statement during the last Congress regarding his belief that an increase is 'the wrong way to raise the incomes of low-wage earners,' there is strong evidence that he recognizes and appreciates the law of supply and demand in this instance," Saxton said.

"So, if the President understands the stifling impact that an increase would have on job opportunities for the young, why is his Administration hell-bent on pushing this through a Republican-led Congress?," said Saxton.

"The answer to my question is, unfortunately, crystal clear," Saxton said.

"While I've had frequent occasion to criticize President Clinton's policies, I have never questioned his deep capacity for human feeling nor his compassion for others. In this instance, however, I must bring into serious question his attempt to reap political gain from an issue that affects the economic well-being of many young people who are seeking first-time job opportunities," said Saxton.

Saxton cited more than 100 economic studies that support his position that an increase in minimum wage is counterproductive to job opportunities. One of these studies was conducted by a Democrat think-tank known as The Progressive Policies Institute (PPI). Ironically, the PPI was chaired by President Clinton prior to the beginning of his 1992 term.

Opening Statement
of Pete Stark
on the Proposed $.90 Hike in the Minimum Wage
Joint Economic Committee
February 22, 1995

I want to begin by thanking you, Mr. Chairman, for convening today's hearing on the proposal to increase the minimum wage. The Joint Economic Committee provides a good forum to examine a number of economic issues surrounding the minimum wage.

More than 12 million workers today are making wages between the current minimum wage of $4.25 and the proposed new minimum of $5.15. Nine million of those workers are adults and one million work in my home state of California.

Economists have estimated that most American workers have held a minimum wage job at some point in their careers. Until the 1980s, the minimum wage was raised on a regular basis, and successive groups of workers observed their wages rise without a loss of their jobs. This helps explain why several recent polls have found that three quarters of the American public support an increase in the minimum wage and do not fear any significant job loss.

In other words, most Americans know intrinsically that the current minimum wage is too low, that raising it will make life better for all workers, and that there really aren't any negative consequences involved.

Since my Republican colleagues are often preaching that they know in fantastic detail what American voters decided last November, I found very interesting one detail from a national Times-Mirror poll released last week. When the poll focussed just on those people who voted for a Republican Congressman last November, it found that fully 60 percent expressed support for the proposed 90 cent hike in the minimum wage.

Not only do the opponents of a minimum wage hike refuse to talk about the voters on this issue, they are trying to do a fast shuffle with economic arguments. For example, ten days ago Majority Leader Dick Armey wrote in the Washington Times that an increase in the Earned Income Tax Credit would be preferable to a minimum wage hike. With an argument like that, you might think he was truly interested in helping out the working poor. Yet he was able to help conjure up $700 billion worth of tax cuts for the so-called "Contract with America" and still not include a dime to improve the tax credit for the working poor.

Contrary to the implication of my Republican friends, we do not face an "either-or" proposition with the EITC and the minimum wage. We can and should do both. Two years ago we substantially raised the EITC -- with no help I might add from the same people who now say that would be better than a minimum wage hike. We can now complement the strengthened EITC with an increase in the minimum wage.

The proposed 90 cent hike in the minimum wage would provide a year round full time worker about $1,800 more per year. Taken together with the current EITC, that would bring a family of three from a thousand dollars below the poverty level to a thousand dollars above it.

We are beginning a major debate about revising our welfare programs with lots of Republican talk of work, personal responsibility, and "tough love." Unless we make it possible for responsible people to work for a living wage, we will have plenty of toughness and very little love.

People seem to forget that the twenty year decline in the real earning power of those at the bottom of the wage ladder has been a major contributing factor to our welfare problem. When hard work does not bring a liveable wage, families have a difficult time holding together. When people leave welfare to take a minimum wage job, they should not have to impose great hardship on their families. With the minimum wage as low as it is today, that is what happens all too often. Any program to move people from welfare to work should include a decent minimum wage.

We must not forget that 35 million Americans still lack health insurance coverage today. Many of those people are in families where a worker makes at or near the minimum wage. I regret that we did not pass major health reform last year to provide coverage for these 35 million. Since few of their employers will be providing them with health insurance any time soon, they are going to have to pay for preventive health services out of their own pockets. A hike in the minimum wage would permit them to obtain better health services.

I would like to close by saying that regardless of the arguments made here today against raising the minimum wage, the American people know that the right to earn a decent living -- even at the lowest end of the pay scale -- is something this country is supposed to stand for. In America, we still set standards, and we should still put the well-being of our working citizens before anything else. Anyone who tries to argue that a higher minimum wage is unnecessary or economically harmful is simply looking for excuses to not pay people what they need to make a decent living in today's economy.

Mr. Chairman, I look forward to hearing from our witnesses.

PREPARED STATEMENT OF REPRESENTATIVE JACK QUINN

Thank you Mr. Vice Chairman.

I look forward to hearing from all of this morning's panelists including Secretary Reich and my colleagues, Congressman Longley and Congressman Owens of my home state of New York.

Shortly after the President's budget proposal, I called on Vice Chairman Saxton to convene a hearing on the question of raising the minimum wage. Therefore, I would like to commend the Vice Chairman for holding today's hearing.

It is my understanding that the Joint Economic Committee is the sole Committee to address this important issue in the 104th Congress.

In my district in Buffalo and Western New York, like in many of my colleagues' districts throughtout the nation, the President's proposal to raise the federal minimum wage from $4.25 per hour to $5.15 per hour is a hotly debated topic. Thus, I have both heard from, and met with, many of my constituents who have strong opinions on both sides of this important issue.

At the current rate of $4.25, in the City of Buffalo, 1450 youths now are employed under its youths summer jobs program. If the wage rate were increased to $5.15 per hour, the number of youths that would be employed under the same program would fall just under 1200.

To back this up, in 1981, long before I came to Washington D.C., a Congressionally-mandated Minimum Wage Study Commission concluded that a 10% increase in the minimum wage reduces teenage employment by one percent to three percent.

I think my simple, but factual example sums up the concerns that many Americans have regarding the President's proposal. It seems to me, given the choice, that my constituents would prefer to have their children off the streets of Buffalo and on back on the job, even if it is at a lower wage rate.

Nevertheless, I am anxious to hear from today's panelists. I am committed to reviewing this issue with an open mind so that we may arrive at a conclusion which most benefits all Americans. Thank you.

TESTIMONY
Hon. James B. Longley, Jr.
Member of Congress (ME-01)
February 22, 1995

GOVERNMENT, NOT* MINIMUM WAGE, *NOW THE ISSUE

Much of the debate over the minimum wage is misplaced. It obscures a cruel hoax being perpetrated on the working poor of this country by an elite group of politicians, academics and government bureaucrats with little or no practical experience in business nor any willingness to acknowledge the extent to which the federal government's desperate need for tax revenues now threatens to obscure, even eliminate, any possibility of attaining any of the goals of social justice that the minimum wage was first instituted to achieve.

In simple terms, the current proposal represents a betrayal of the principles of Franklin Roosevelt and the New Deal and plain ignorance about the realities involved in trying to create jobs in this country.

When the minimum wage was first introduced in 1938, social conditions were radically different than they are today. The country was attempting to recover from the Depression and Congress was making its first attempts to legislate the wage and hour safeguards that many of us now take for granted.

For instance, the Social Security Act of 1937 instituted a national program of supplemental retirement income for a population with little in the way of retirement security. A national program of unemployment compensation was also adopted to protect against lost income arising from the unforseen loss of a job.

At the same time, the tax structures implemented to pay for these programs were reasonable and consistent with what the economy could support. For instance, in the late 30's, employer taxes--at about 1% apiece for worker's compensation, unemployment insurance and social security--were only a fraction of what they are today.

How bad are these taxes today? In my campaign, I spoke often of the fact that if I bought a pack of cigarettes in my home state of Maine, I would pay three (3) taxes, or that if I bought a six-pack of beer, I would pay four (4) taxes--and we call these taxes "sin taxes". But what do we call it when an employer creates a job for a working person and is burdened with the payment or management of *nine (9)* different taxes or mandates and the total burden often exceeds 25-30%?

The tax burdens associated with creating a job today are nothing short of overwhelming. Even worse, many policy makers show no sign of acknowedging the burden that has been created. The analysis shown on the following page illustrates both the existing tax burden on the first dollar paid by a new employer at the minimum wage in Maine as well as the burden that could have been possible if last year's proposed Healthcare and Training Taxes had been enacted and a proposed Social Security tax increase had taken place:

Taxes/Costs at $4.25 per hour

Employer Taxes and Mandates:		Current	Possible	Comment:
1.	Workers Compensation	$0.155	$0.155	~3.65%
2.	State Unemployment	$0.200	$0.200	~4.90%
3.	Federal Unemployment	$0.034	$0.034	0.80%
4.	Social Security	$0.263	**$0.526**	6.20% **(x2)**
5.	Medicare Insurance	$0.062	**$0.124**	1.45% **(x2)**
(6.)	**Health Insurance**	-	**$0.340**	**8.00%**
(7.)	**Training Tax**	-	**$0.043**	**1.00%**
	Total Employer Costs	$0.714	$1.422	

Employee Taxes		Current	Possible	Comment:
1.	Social Security	$0.263	**$0.526**	6.20% **(x2)**
2.	Medicare Tax	$0.062	**$0.124**	1.45% **(x2)**
3.	Federall Income	-	-	
4.	State Income	-	-	
(5.)	**Healthcare Tax**	-	**$0.085**	**2.00%**
	Total Employee Taxes	$0.325	$0.735	
	Overall Taxes/Costs	$1.039	$2.157	

Michael Kinsley said it best a year ago in his article "My Failed Jobs Program" when he indicated that "it takes a minimum of 37 different forms and 50 separate checks to hire a single employee for a year, even if she graciously agrees to be paid only once a month."

This is the real issue, excessive government spending, high taxes and regulatory hassles--*not* the minimum wage. If we focus on these real issues--*cutting* government spending and *reducing* the tax and regulatory burden--we will achieve the meaningful increases in take-home pay that the working poor truly deserve.

STATEMENT OF THE HONORABLE MAJOR R. OWENS
RANKING MEMBER, SUBCOMMITTEE ON WORKFORCE PROTECTIONS
BEFORE THE JOINT ECONOMIC COMMITTEE
WEDNESDAY, FEBRUARY 22, 1995

MR. CHAIRMAN, MEMBERS OF THE JOINT ECONOMIC COMMITTEE, AS THE RANKING MEMBER OF THE HOUSE SUBCOMMITTEE WITH JURISDICTION FOR THE FAIR LABOR STANDARDS ACT, I THANK YOU FOR THE OPPORTUNITY TO PRESENT MY VIEWS IN SUPPORT OF PRESIDENT CLINTON'S PROPOSAL TO INCREASE THE MINIMUM WAGE.

THE VALUE OF THE MINIMUM WAGE IS NOW 27 PERCENT LOWER THAN IT WAS IN 1979, AND IF IT WERE TO STAY AT ITS CURRENT LEVEL, IT WOULD FALL TO ITS LOWEST REAL LEVEL IN 40 YEARS.

THE MINIMUM WAGE WAS LAST INCREASED IN 1991 TO 4 DOLLARS AND 25 CENTS. IN THE YEARS SINCE, INFLATION HAS REDUCED THE REAL PURCHASING POWER OF THE HOURLY WAGE BY 45 CENTS. AS A RESULT, MORE AND MORE AMERICANS ARE FALLING INTO POVERTY, AND DESPITE FULL-TIME EMPLOYMENT, ARE UNABLE TO PROVIDE FOR THEIR FAMILIES WITHOUT PUBLIC ASSISTANCE.

THE DAY AFTER SHE DELIVERED THE REPUBLICAN RESPONSE TO THE STATE OF THE UNION ADDRESS, CHRISTINE TODD WHITMAN, THE GOVERNOR OF NEW JERSEY, STATED: "OBVIOUSLY, IN MY STATE, IF YOU TRY TO LIVE ON A NATIONAL MINIMUM WAGE YOU COULDN'T DO IT." THAT IS AS SUCCINCT AN EXPLANATION OF THE NEED TO INCREASE THE MINIMUM WAGES AS I HAVE YET HEARD. GOVERNOR WHITMAN TRUTHFULLY AND FORCEFULLY HIGHLIGHTS THE PUBLIC POLICY CONTRADICTION THAT WHILE WE EXTOL THE VALUE OF WORK, OUR REFUSAL TO RAISE THE MINIMUM WAGE SHOWS GREAT CONTEMPT FOR WORK AND WORKERS.

WORK IS AN ENDURING MORAL AND FAMILY VALUE ENDORSED BY ALL AMERICANS. FROM ONE END OF THE POLITICAL SPECTRUM TO THE OTHER--CONSERVATIVES, MODERATES, LIBERAL, DEMOCRATS, AND REPUBLICANS--WE ALL ADVOCATE WORK AND EMPLOYMENT AS VITAL FOR THE CORE OF OUR DEMOCRATIC, CAPITALISTIC SOCIETY. WORK AND REGULAR PAYCHECKS WE RECOGNIZE AS ABSOLUTE NECESSITIES FOR FAMILY HEALTH, SOLIDARITY, AND SURVIVAL. WE HAVE OVERWHELMING, ALMOST TOTAL, AGREEMENT ON THIS JUDEO-CHRISTIAN AND AMERICAN VALUE. SUPPORT FOR THE WORK ETHIC BRINGS US ALL TOGETHER.

OUR MINIMUM WAGE LAWS ARE THE MOST IMPORTANT EXPRESSIONS OF PUBLIC POLICY SUPPORT FOR THE WORK ETHIC. WORK IS A VALUE UNTO ITSELF. THE MINIMUM WAGE LAW PLACES A FLOOR UNDER THE VALUE TO BE ASSIGNED TO WORK IN OUR SOCIETY AND IN OUR CURRENT ECONOMY. TO REJECT AN INCREASE IN THE MINIMUM WAGE IS TO TREAT THE WORK ETHIC WITH CRUSHING CONTEMPT.

DURING THE EXIT POLL INTERVIEWS LAST NOVEMBER, WORKERS AT EVERY LEVEL EXPRESSED GREAT ANGER AT THE CONTINUING FAILURE OF THEIR WAGES TO CLIMB AT A RATE TO MATCH THE RISING COST OF LIVING. EVEN WORKERS WHOSE WAGES ARE FAR ABOVE THE MINIMUM WAGE FAVOR AN INCREASE BECAUSE THE MINIMUM WAGE LAW SETS THE FLOOR STANDARD AND SERVES AS A STIMULUS FOR ALL OF THE WAGE RATES ABOVE THE FLOOR. WITHOUT A DOUBT, AN INCREASE IN THE MINIMUM WAGE BOOSTS THE OVERALL STATUS OF THE WORK ETHIC. ON THE OTHER HAND, OPPOSITION TO THE MINIMUM WAGE IS A DENIGRATION OF WORK. IT SHOWS CONTEMPT FOR WORK.

AGAIN, THERE IS AGREEMENT AMONG ALL PARTIES THAT WE SHOULD "END WELFARE AS WE KNOW IT" AND SUBSTITUTE WORK FOR THE PUBLIC ASSISTANCE CHECK. I FIRMLY AGREE WITH THIS OBJECTIVE AND HAVE INTRODUCED A BILL, HR 805, WHICH WOULD CREATE A MILLION JOBS PER YEAR. THERE IS PLENTY OF WORK TO BE DONE; HOWEVER, WORK IS NOT A JOB UNTIL THERE IS MONEY TO PAY FOR THE LABOR. WHEN WE DEMAND THAT PEOPLE GO TO WORK, WE MUST DEFINE WORK AS A JOB WHICH AT LEAST PAYS THE MINIMUM WAGE AND OFFERS BASIC HEALTH CARE.

IN THE CONTEXT OF THE RICH AMERICAN ECONOMY WITH ITS HIGH STANDARD OF LIVING, TO OFFER ANYTHING LESS IS TO TREAT WORK WITH CONTEMPT. TO OPPOSE AN INCREASE IN THE HOURLY MINIMUM WAGE TO 5 DOLLARS AND 15 CENTS OVER THE NEXT TWO YEARS IS TO SAY TO WELFARE RECIPIENTS AND ALL OTHER WORKERS THAT WE ARE REALLY PLANNING AN ECONOMY WITH A NEW KIND OF SLAVERY.

OVER 80 PERCENT OF THE AMERICAN PEOPLE AGREE THAT A MINIMUM WAGE INCREASE IS IN ORDER. A MINIMUM WAGE WORKER, WORKING 40 HOURS A WEEK, FIFTY WEEKS A YEAR, WITHOUT MISSING A DAY OR AN HOUR, EARNS A GROSS INCOME OF 8,500 DOLLARS; 170 DOLLARS A WEEK BEFORE TAXES AND SOCIAL SECURITY ARE TAKEN OUT. A MEMBER OF CONGRESS EARNS AS MUCH IN 28 DAYS AS A MINIMUM WAGE WORKER DOES IN A YEAR. THE AVERAGE CEO OF A FORTUNE 500 COMPANY EARNS AS MUCH IN 28 HOURS. THIS IS AN OUTRAGEOUS DISPARITY, DISPLAYING GREAT CONTEMPT FOR THE WAGE EARNERS ON THE FRONT LINES IN OUR ECONOMY. SIXTY-THREE PERCENT OF MINIMUM WAGE EARNERS--ALMOST TWO OUT OF THREE WORKERS--ARE OVER THE AGE OF 20. EVEN WITH THE EARNED INCOME TAX

CREDIT, A MOTHER EARNING THE MINIMUM WAGE CANNOT SUPPORT HERSELF AND TWO CHILDREN ABOVE THE POVERTY LINE.

ELEVEN MILLION AMERICANS CURRENTLY EARN LESS THAN 5 DOLLARS AND 15 CENTS AN HOUR. INCREASING THE MINIMUM WAGE, EVEN BY A VERY MODEST 90 CENTS OVER TWO YEARS, PROVIDES GENUINE ASSISTANCE TO THOSE WHO ARE INCREASINGLY BEING LEFT BEHIND.

THE REPUBLICAN CONTRACT WITH AMERICA INCLUDES THE PROMISE OF ENACTING MORE THAN A DOZEN TAX CUTS. WHILE IT HAS BEEN WORKING AMERICANS, PARTICULARLY LOW-WAGE WORKING AMERICANS, WHO HAVE SUFFERED MOST IN RECENT YEARS, THESE TAX CUTS ARE HEAVILY TILTED TO THE MOST AFFLUENT AMERICANS. AS A RESULT OF TAX CUTS PROPOSED IN THE CONTRACT WITH AMERICA, THE PERCENTAGE OF INCREASE IN AFTER-TAX INCOME PROGRESSIVELY INCREASES AS YOU EARN MORE. THE TAX CUTS PROMISE TO RAISE THE REAL INCOME OF THOSE MAKING 200,000 DOLLARS OR MORE BY 3 PERCENT. THOSE MAKING 10,000 DOLLARS OR LESS WILL SEE THEIR INCOME RAISED BY ONE-HALF OF ONE PERCENT.

WHEN EXPRESSED IN REAL DOLLAR TERMS, THE BIAS IN THE PROPOSED TAX CUT IS EVEN CLEARER. WHEN FULLY IMPLEMENTED, A FAMILY EARNING 200,000 DOLLARS OR MORE WILL SEE THEIR AFTER-TAX ANNUAL INCOME INCREASE BY 11,450 DOLLARS IN 1995 DOLLARS. A FAMILY EARNING LESS THAN 10,000 DOLLARS MAY SEE AN INCREASE OF 25 DOLLARS. THE CONTRACT'S PROMISED TAX CUT TO THE WEALTHIEST AMERICANS IS WORTH ALMOST 6.5 TIMES MORE THAN THE 1,800 DOLLARS GROSS ANNUAL INCREASE A MINIMUM WAGE WORKER WOULD RECEIVE IF THE PRESIDENT'S MINIMUM WAGE INCREASE IS FULLY IMPLEMENTED. PUT ANOTHER WAY, THE PROPOSED

ANNUAL INCREASE IN REAL INCOME THAT THE CONTRACT PROMISES TO THOSE WHO ARE ALREADY EARNING MORE THAN 200,000 DOLLARS A YEAR IS 1,000 DOLLARS MORE THAN A FULL-TIME MINIMUM WAGE WORKER WOULD EARN IN A YEAR IF THE PRESIDENT'S MINIMUM WAGE PROPOSAL IS ENACTED, AND 3,000 DOLLARS MORE THAN A MINIMUM WAGE WORKER ANNUALLY EARNS TODAY. THIS REPUBLICAN CONTRACT SHOWS CONTEMPT FOR THE WORK AND THE WAGES OF THOSE WITH THE GREATEST NEEDS AND THE LOWEST INCOMES IN AMERICA.

IN THE END, THE ULTIMATE DIGNITY OF WORK IS THE ABILITY IT CONFERS TO A PERSON TO INDEPENDENTLY SUPPORT ONE'S SELF AND ONE'S FAMILY. THE PURPOSE OF THE MINIMUM WAGE LAW IS TO ESTABLISH A FLOOR SO THAT MARKET PRESSURES ARE NOT PERMITTED TO FORCE PEOPLE TO WORK FOR LESS THAN THE AMOUNT NECESSARY TO SUPPORT ONE'S SELF. IT IS BOTH HYPOCRITICAL AND VAIN FOR THIS CONGRESS TO MAINTAIN ON THE ONE HAND THAT AMERICANS MUST WORK FOR A LIVING--AS WE ARE SEEKING TO DO IN THE WELFARE REFORM LEGISLATION--AND ON THE OTHER HAND, REFUSE TO INCREASE THE MINIMUM WAGE, DENYING MILLIONS OF AMERICANS THE ABILITY, THROUGH EMPLOYMENT, TO EARN A LIVING WAGE. AS MY COLLEAGUE, THE HONORABLE LOU STOKES HAS STATED: "AMERICA NEEDS TO LIVE UP TO ITS PLEDGE OF BEING ONE NATION THAT WILL PROVIDE EVERY AMERICAN AN OPPORTUNITY TO EARN A DECENT LIVING. IN TODAY'S SOCIETY, THERE CAN BE NO ADVANCEMENT WITHOUT A DECENT JOB AND A DECENT WAGE. WE LIVE IN A NATION WHICH HAS VEERED AWAY FROM ITS CREED--FROM ITS PLEDGE TO PROVIDE OPPORTUNITY FOR ALL AMERICANS."

WE MUST END THE CONTEMPT FOR THE WORK ETHIC. WE MUST OFFICIALLY, THROUGH PUBLIC POLICY, REAFFIRM OUR ADVOCACY OF WORK AS A MORAL AND FAMILY-SUPPORTING VALUE.

PREPARED STATEMENT OF REPRESENTATIVE KWEISI MFUME

Mr. Chairman, today America is hurting. It is hurting because too many Americans who play by the rules, who work hard, are finding themselves falling behind. Their weekly earnings buy less today than they did before. In 1979, data from establishments collected by the Bureau of Labor Statistics, show that the average firm paid weekly wages of $219.91. In today's dollars, that would mean weekly earnings of $454.23. But today, the Bureau of Labor Statistics reports that establishments pay an average of $391.13. That is a 16 percent pay cut.

In this Congress we have not addressed that basic issue. Cutting welfare will not raise wages. Giving tax cuts to the wealthy was tried in the 1980s, and that did not raise wages. It is time Congress addressed the real problem facing working Americans.

Most Americans agree on one way to approach falling wages. Over three fourths of Americans in recent polls favor the raise in the minimum wage proposed by President Clinton. I might add that 60 percent of those who said they voted for Republican congressmen support the President on this. If we are going to listen to the voters, we must listen to the voters on this issue.

Why do they favor raising the minimum wage? Because, most minimum wage workers are adults. Because, minimum wage workers provide an average of over half their family's weekly earnings. Because there is a direct relation between the minimum wage and families staying out of poverty.

In 1979, when the minimum wage was worth almost $6.00 an hour, there were almost 1.4 million Americans working full-time, year round living below poverty. Today, during an economic recovery, with the minimum wage at $4.25, the number of full-time, year round workers living below poverty is over 2 million. Americans know that it is not right to have an increase in the number of people working full-time, year round living below poverty. Americans know that it is not right to have more than 15 million workers being paid less today, in real terms, than we legally allowed in 1979.

Americans on the state and local level have shown us that Americans know that $4.25 is not the right minimum wage. Eight states, and the District of Columbia, have minimum wages above $4.25 an hour. I should point out, Mr. Chairman, that New Jersey already has a minimum wage higher than the President is proposing for this year. In my own city, the Baltimore City Council has passed an ordinance raising the minimum wage for service contractors doing business with the city. Americans are waiting to see if Congress gets the message.

Critics of raising the minimum wage cart out worn-out studies to make their points. But, let us agree on some new facts. Raising the minimum wage improves the wages of low-wage workers. Most minimum wage workers are adults, and most of those adults are females helping to support themselves or their families. A study by two academic researchers, about to be published, that I can make available for the record, shows that President Clinton's proposed increase in the minimum wage should reduce poverty among working women by almost 18 percent.

Even though the minimum wage is really about adult workers, the critics of raising the minimum wage, have even now become the defenders of African American teenage males. They say they do not want to raise the minimum wage because it will hurt the employment of young African Americans.

In 1964, when I was 16, landing a minimum wage job meant $1.25 an hour. Today, that would be equivalent to $5.67 an hour. But, today the minimum wage stands at $4.25. When I was 16 in October, 1964, the ratio of the black to white teenage unemployment rate was 2.0. Today, when the minimum wage 33 percent lower in value, that ratio is 2.5--worse, not better, than before.

I know first-hand the struggle of young African American males trying to survive our new economy. The difficulties I faced, and watched my sons face, are too many to list. In this 104th Congress, I have yet to see us debate on the floor, a policy that I thought was aimed at solving any of the problems I faced. But, lowering the wage I would have gotten, if I landed a job, would not have helped me back then. It would not have made me think that work was worth the effort.

Today is no different. Today, the labor force participation rate of African American teenagers is under 40 percent. That means more than 60 percent are not even looking for work. Most of them are doing the right thing and worrying about graduating from high school. In fact, controlling for family income, parents' education, and other factors, they are more likely to graduate than white youngsters. Lowering the value of the minimum wage will not bring into the labor force those 60 percent now out of the labor force.

But, continuing to lower the minimum wage will hurt their families. Letting the minimum wage fall in value will hurt the families of all working Americans. I look forward to today's hearing. I hope we will end up showing Americans that Congress hears them on the real issues of the day.

A GENDER ANALYSIS OF LABOR MARKET POLICIES FOR THE WORKING POOR

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Abstract

Current anti-poverty policy proposals focus on welfare reform to the exclusion of reforming the low-wage labor market. In contrast, we compare two policy proposals aimed at low-wage labor markets: a national comparable worth policy and an increase in the minimum wage. With both policies we pay specific attention to their impact by gender. Our findings suggest that while both would reduce poverty among working women, the impact of a comparable worth policy on female poverty would be greater under most scenarios presented. It is estimated that a 96-cent increase in the national minimum wage would be necessary to equal the poverty reduction effect for women workers of a comparable worth policy which excludes small employers. Because about 60 percent of minimum wage workers are women, both policies decrease the incidence of poverty-level wages less among men. Additionally, not only would a national comparable worth policy improve the economic status of low-waged women workers, it would also narrow the gap between male and female poverty. While an increase in the minimum wage would also reduce this gap, comparable worth would virtually eliminate it.

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A GENDER ANALYSIS OF LABOR MARKET POLICIES FOR THE WORKING POOR

Introduction

The contemporary discourse on poverty and welfare reform assumes two solutions to women's poverty: marriage markets and labor markets. Marriage market proposals focus on raising family income by fostering "traditional" family structures and by enforcing child support. Labor market proposals limit access to welfare (via time limits or penalizing recipients who have additional children, for example) in order to compel labor market participation.

Feminist rebuttals to marriage market proposals have reasserted the continued importance of state support for families, including and especially female-headed families, and the right of those families to economic security (see, for example, Fox Piven 1990; Amott 1990). Responses by feminists to labor market proposals have argued that movement from welfare to the labor market will not necessarily move women out of poverty (see Pearce 1990). As research by the Institute for Women's Policy Research has shown, women receiving Aid to Families with Dependent Children (AFDC) already work: about 40 percent worked roughly half-time over a two-year period (Spalter-Roth, Hartmann, and Andrews 1992; Spalter-Roth 1994). However, women who work often earn poverty-level wages.

It is important to emphasize the structural reasons for working women's poverty: specifically, occupational and industrial segregation by gender, and women's overrepresentation in the low-wage labor market (Haugen and Mellor 1990; Martin and Giannaros 1990). Most of the working poor are women in poorly-paid and/or minimum wage occupations, despite the fact that many work year-round, full-time (Mellor 1987). While profiles of the working poor highlight characteristics of human capital attainment and family structure, they often overlook occupational distribution (see Danziger and Gottschalk 1986; Smith and Vavrichek 1987; Klein and Rones 1989; Rodgers 1990).

Over half of women workers are employed in female-dominated occupations, that is, occupations that are more than 70 percent female. Average wages in these occupations are low. More than 25 percent of women in female-dominated occupations earn less than the hourly wage necessary to bring a family of three above the federal poverty threshold (based on the March 1992 CPS). Most of the working poor are employed in retail trade and service industries (Mincy 1990), and are disproportionately represented in low-paid sales, service, and unskilled blue collar jobs (Mellor 1987). Female-dominated administrative support occupations as well as seasonal agricultural occupations also are characterized by large numbers of poor female and male workers respectively (Levitan, Gallo, and Shapiro 1993: 30-31).

Thus, women currently receiving AFDC who enter the labor market are likely to be employed in low-wage and female-dominated occupations. Labor market reform must accompany welfare reform if women are to earn a "family wage"--a wage that enables them to support themselves and their children. Teresa Amott (1994) has argued: "... indeed the only successful welfare reform will be that reform which takes as its target those labor market barriers, rather than taking as its target the personal behavior of women and their children" (35). In this paper, we use the March 1992 Current Population Survey (CPS) to estimate the impact of two possible labor market reforms on earnings and poverty: a federal comparable worth policy and an increase in the minimum wage.

Previous research has shown that raising the minimum wage could play a major role in reducing female poverty (Martin and Giannaros 1990; Mincy 1990). The Clinton Administration has recently proposed an increase in the minimum wage, defending minimum wage workers as breadwinners who need a living wage. While this rhetoric disputes the portrait of minimum wage workers as primarily teenagers, it generally overlooks the gender of the breadwinners. About 60 percent of all minimum wage workers are women, and low-wage labor markets are shaped by gender as well as class and race. Gender discrimination is "at the core of women's poverty," according to Diana Pearce (1990: 275), who coined the term "the feminization of poverty." One form that gender discrimination takes is that, all other things equal, female-dominated jobs are devalued by the market, by management, and by society. The comparable worth movement seeks to address that part of the gender-based wage differential which is not eliminated by equal pay for equal work or by affirmative action policies.

Therefore, we first analyze the potential impact of comparable worth on earnings and poverty. Next, we estimate the effect of possible increases in the minimum wage. Finally, we compare the results of the two policies along gender lines. This comparison is most meaningful for women, since by definition men as a group will not be greatly affected by a comparable worth policy targeted to female-dominated occupations.

Although our results rest on specific assumptions about the manner in which these policies might be implemented, they suggest that comparable worth wage adjustments have more of an impact on female poverty than does a moderate increase in the minimum wage.

In fact, we find that it would take an increase in the minimum wage of 96 cents, to $5.21 per hour, to have the same poverty reduction effect for women as a national comparable worth policy. The policy comparison for men is more ambiguous. These findings imply that not only are labor market reforms an essential element of an anti-poverty policy, but that those reforms should not be gender-blind.

Federal poverty rates are calculated for families, and indeed are quite different by family type. In an analysis of earnings across seven family types (married, single female and male both with and without children, and elderly families), Tilly and Albelda (1994) find that single women with children have the lowest earnings. While conservative economists have seized on this to advocate public policies which encourage women to form and maintain families with male breadwinners, this strategy ignores the importance of economic independence for women. By focusing on *individual* wages, our methodology seeks to break the link between family type and poverty. Therefore, we use the concept of adequate earnings, i.e. the wages of individuals that would be necessary to bring an adult and two or three children above the federal poverty line.

Comparable Worth: Methodology and Effects

To compute the effects of comparable worth we estimate, using OLS, the following semi-logarithmic wage equations for adults aged 16 - 64 years with earnings in the March 1992 CPS survey week:

(1) $\ln W_F = \alpha_F + \beta_F X_F + \gamma_F Z + \epsilon$ for women and

(2) $\ln W_M = \alpha_M + \beta_M X_M + \gamma_M Z + \epsilon$ for men,

where X is a vector of characteristics that influence earnings and γ is the coefficient for percent female, Z, at the 3-digit occupation level. (See Aldrich and Buchele 1986, Johnson and Solon 1986, Sorensen 1989, 1990, and England 1992 for studies employing similar earnings equations). Logarithmic equations allow us to examine percent changes in wages as each of the variables changes.

The dependent variable is the natural log of hourly earnings, called HRSPAY (w_F for women and w_M for men).[1] A series of independent variables that can influence one's wages such as education, experience, part-time status, region, industry, firm size, unionization, and occupational characteristics (job attributes from the *Dictionary of Occupational Titles*) is included in each earnings equation. The percent female of the individual's occupation is used to isolate the effect of gender composition of an occupation on wages; specific (3-digit), rather than broad, occupational categories are used. A full list of independent variables and their definition is in Appendix 1.

If comparable worth were mandated nationally (although implemented at the establishment level), the wage penalty for working in a female-dominated occupation would be greatly reduced. Therefore, we estimate the potential impact of comparable worth by setting the percent female coefficient equal to zero.[2] Thus, women and men are compensated as if percent female in the occupation were not depressing the wage. Finally, these wages predicted as a result of comparable worth reform, designated NEWPAY, are used to calculate the reduction in the percent of women and men among the working poor.

Several prerequisites and assumptions are used in calculating new, predicted wages to correspond with pay equity implementation methods used across the U.S. First, we restrict the benefits of comparable worth wage adjustments to women and men in female-dominated occupations, defined as 70 percent or more female. Second, no one individual's wage is decreased as a result of comparable worth, paralleling the guidelines of the Equal Pay Act. Third, because public policies such as Title VII and the Family and Medical Leave Act have excluded small firms, the decline in the percent of individuals earning poverty-level wages is also estimated under this scenario. NEWPAY2 results assume that firms with fewer than 25 employees (at all locations) are excluded from a comparable worth mandate. Finally, we assume that any disemployment effects resulting from comparable worth wage adjustments will be negligible. This assumption is based upon previous research estimating employment elasticities and assessments of employment effects in states and localities such as Minnesota, Washington, and San Jose, where comparable worth has already been implemented (see, for example, Ehrenberg and Smith 1987; O'Neill, Brien, and Cunningham 1989; Ehrenberg 1989; Kahn 1992; Sorensen 1994).[3]

The results of the earnings equations used for comparable worth wage adjustments indicate that the estimated coefficients for percent female are -.118 for women and -.193 for men. This means that for every 1 percentage point increase in the percent female in an occupation, wages decline by .118% for women and .193% for men. Consequently, the penalty of being employed in a female-dominated occupation is greater for men. As expected, the higher the percent female in the occupation in which the person is employed, the more devalued the original wage and hence the higher the comparable worth wage adjustment in percentage terms. The estimated coefficients for the semi-logarithmic equations are reported in Appendix 2.[4]

To estimate the impact of comparable worth on the percentage of workers with adequate wages, we employ three low-earnings or poverty thresholds expressed as hourly wage rates: Poverty 1, Poverty 2, and Poverty 3. For Poverty 1, we use the federal poverty line for a family of three (one adult, two children), $11,304 or $5.65 per hour because most female-headed families contain three members.[5] Since *poor* female-headed families have an average of 3.8 members,[6] we also consider the federal poverty line for a family of four with one adult and three children ($14,277 or $7.14 an hour), called Poverty 2. For Poverty 3, we employ Renwick and Bergmann's "Basic Needs Budget" (1993) for a family of three, which amounts to $8.99 an hour[7], or 159% of Poverty 1.

Comparable worth would have a significant impact on women's hourly earnings, the sex-based wage differential, and the percentage of women below each of the three poverty thresholds. Table 1 shows that women's average pay would be raised from $9.79 to $10.62 per hour. The results are dramatic even when small employers are excluded from the policy, with women's average pay increasing to $10.41 per hour. The female-to-male wage ratio increases from .765 to .817 when small employers are included and to .804 when they are not. The percentage of women below Poverty 1 falls from 25.0% before comparable worth to 15.3% (a 38.8% decline) with the widest coverage or to 18.9% (a 24.4% decline) in the conservative scenario.

[Table 1 about here.]

Note also from Table 1 that the reduction in the percent of working women earning poverty-level wages is greatest using the lowest threshold, Poverty 1. This implies that if comparable worth were successfully implemented, we would find that poverty would be reduced most among the poorest workers. Although excluding small employers (NEWPAY2) lessens the effect of comparable worth, all the reductions for women shown in Table 1 are large and significant.

As we have shown in previous research, decreases in the percentage of women earning poverty-level wages in particular occupations and industries are substantial. For example, comparable worth would reduce the incidence of poverty-level wages among women administrative support (including clerical) workers by 74%. Comparable worth would also result in dramatic improvement in the economic status of women employed in service occupations and industries (see Lapidus and Figart 1994).

Although the wage depreciation for individual men working in female-dominated occupations is larger than it is for women, the results for men as a group are smaller, reflecting that fewer men are employed in female-dominated occupations. The increase in men's mean hourly wages is not statistically significant. In contrast to women, the decrease in the percentage of men earning poverty-level wages exhibited in Table 1 is much less--at most 9.5% using Poverty 1 and NEWPAY (from 16.1% to 14.4%). Excluding employers with fewer than 25 employees would virtually eliminate what small benefits men might otherwise receive from comparable worth if all employers were covered. As is the case for women, the relative declines in those earning poverty-level wages are greatest when the lowest absolute threshold, Poverty 1, is used.

Minimum Wage Increases: Methodology and Effects

The methodology for estimating the impact of an increase in the minimum wage on poverty is not straightforward. People who earn just above the minimum wage have similar demographic, industrial, and occupational characteristics as those who earn the minimum wage or less (Mellor 1987). As shown by Grossman (1983), Spriggs and Klein (1994), Katz and Krueger (1992), and others, the minimum wage serves as a key rate for several industries and occupations (such as food service and retail sales workers). Further, firms often maintain their internal wage structure when the minimum wage is increased. Therefore, the methodology needs to consider which wages have an underlying relationship to each other.

Spriggs and Klein (1994) have used cluster analysis with CPS data from 1973-1992 to identify wage clusters by major occupation and industry. Wages of workers with a high school education or less in the identified clusters are found to be on a wage contour tied to the minimum wage (see also Grossman 1983; Katz and Krueger 1992).[8] Longitudinal regression analysis by Spriggs and Klein indicates for every $1.00 change in the federal minimum wage, the average wage of workers on the minimum wage contour changes by 68 cents (Spriggs and Klein 1994: 84-85).[9] Using the March 1992 CPS, we select individuals in the industry/occupation cells identified by Spriggs and Klein who also have no more than a high school education as potentially falling on the minimum wage contour; we model an increase in their wages corresponding to hypothetical increases in the minimum wage. For a specific list of these occupations within industries, see Appendix 3.[10]

The other difficulty in simulating a minimum wage increase is deciding upon the new minimum(s) to model. A minimum wage of $5.30 per hour would correspond to 50 percent of average private sector hourly earnings in 1992, and the 50 percent level has historically guided the setting of the minimum wage (Kamolnick 1993). However, the last adjustment of $.90 was only accomplished in two stages after the minimum wage had remained unchanged for a decade. To begin, we model an increase to $4.75 per hour, which would almost halve the gap between the current minimum wage ($4.25 per hour) and a goal of $5.30 per hour, and is comparable to the 1991 increase in percentage terms.

Utilizing a new minimum of $4.75, the wages of workers not on the contour earning between the current and hypothetical minimum wage are brought up to $4.75. In addition, workers on the minimum wage contour receive the greater of either: (1) a wage increase that is a proportion (68%) of the change in the minimum wage, based on the regression coefficient reported by Spriggs and Klein (1994); or (2) a wage increase which brings them up to the new minimum. We employ two approaches to compute new wages for workers on the contour; one relies on an absolute increase and the other on a percentage increase. In Scenario 1, the increase for workers on the contour is in absolute terms (68% of $.50, or $.34 per hour) while in Scenario 2 the increase is in percentage terms (68% of an 11.76% increase in the minimum wage, or 8.00% of the original wage). For example, a worker on the contour earning $4.50 prior to the simulated minimum wage increase would earn $4.84 under Scenario 1 and $4.86 under Scenario 2. Because the Clinton Administration has recommended a .90-cent increase in the minimum wage to $5.15 over two years, we also model this proposal using the same methodology for workers on the minimum wage contour described above.

Finally, we assume that the impact of the minimum wage increase on employment would be low. Recent studies have found that minimum wage increases have had negligible or even marginally positive employment effects (Card 1992; Katz and Krueger 1992; Card and Krueger 1994; Card and Krueger 1995; see also Sellekaerts 1982 for effects computed in a general equilibrium framework). Further, the impact on teenage employment, a segment of the labor market thought to be most sensitive to changes in the minimum wage, was found to be low (Wellington 1991).[11] Finally, since our concern is comparing the effects of two low-wage labor market reforms, there is little reason to expect that the disemployment effects from comparable worth would be substantially different from those created by a new minimum wage. Future research might investigate the employment elasticities of the two policies.

Table 2 shows the estimated effects of a minimum wage increase to $4.75, with the absolute (flat) and percentage minimum wage increases for workers on the contour. Women's average wages would increase from $9.79 to $10.00 under Scenario 1 and to $10.21 under Scenario 2, and the female-to-male wage ratio would increase from .765 to .774 or .781. Note that policies designed to affect the lowest paid workers produce relatively small changes in mean wages. However, the minimum wage scenarios do have a large effect on the poorest workers. The percentage of women below Poverty 1, 25.0% before the minimum wage increase, falls to about 22% or 21% in each case. Men's poverty declines from 16.1% below Poverty 1 to 14.8% or 14.3%.

[Table 2 about here.]

A Comparison Between the Two Policies

There are four ways to compare the effects of comparable worth and an increase in the minimum wage: changes in mean wages, changes in the female-to-male wage ratio, changes in the percent of workers below the poverty thresholds, and changes in the gap between female and male poverty. Our discussion of the comparisons uses the more conservative comparable worth scenario from Table 1 in which wage adjustments are restricted to those employers with more than 25 employees (NEWPAY2). The mean wage for women before either policy is $9.79 per hour. A $4.75 minimum wage (shown in Table 2) raises women's mean wages to $10.00 per hour (Scenario 1) or $10.21 per hour (Scenario 2) while comparable worth increases women's mean pay to $10.41 per hour. Further, the female-to-male wage ratio as well as the percent of women below poverty are unambiguously better under comparable worth. The percent of women earning below Poverty 1 falls from 25.0% before the policy interventions to approximately 21-22% in both minimum wage scenarios and to 18.9% with a comparable worth policy. Comparable worth wage adjustments thus produce a greater reduction in the percentage of women earning poverty-level wages, under the conditions specified in the two scenarios.

The two policies are not clearly distinguishable in the case of men. Men's mean wages are $12.94 with NEWPAY2 and $12.92 with the absolute increase in the minimum wage. The percentage increase in the minimum wage has the largest effect on men's mean wages and the most significant effect on the percent on men below each of the poverty thresholds. There are several possible explanations for these results. Only 8.7% of men but 57.6% of women are employed in female-dominated occupations. Further, 60% of all minimum wage workers are women and 65% of all workers on the minimum wage contour are women. With relatively small numbers of men targeted by both policies, changes in means and poverty distributions are difficult to discern.

A striking finding from Tables 1 and 2 is the reduction in the gap in poverty rates between men and women. Both comparable worth and changes in the minimum wage narrow the gap, but a comparable worth policy would close the gap by a greater amount than the minimum wage scenarios depicted. Before any policy intervention, the gap between male and female poverty at Poverty 1 was 8.9%. The absolute and percentage minimum wage increases reduced that gap to 7.3% and 6.9% respectively. With comparable worth in the restricted scenario, the gap fell to 3.9%. Moreover, if all employers were covered, comparable worth would virtually eliminate the gap. Thus, a national comparable worth policy applied to firms of 25 or more would be more effective at lifting full-time working women out of poverty than a $.50 increase in the minimum wage, even after the effects on the entire minimum wage contour are taken into account.

To reflect current policy discussions, the effects of a 90-cent increase in the minimum wage to $5.15 per hour are estimated. The findings for women are contrasted with a comparable worth policy which excludes small employers in Table 3. This larger minimum wage boost is estimated to raise women's average wages from $9.79 to $10.17, with a flat increase for those on the minimum wage contour--still less than the mean wage achieved by comparable worth. The female-to-male wage ratio also continues to show more improvement under comparable worth than the $5.15, flat scenario. With one exception, the percent of women below each poverty threshold remains lower with comparable worth; the percentage of women below Poverty 1 falls from 25.0% to 18.9% under comparable worth but to 16.9% if the 90 cent increase in the minimum wage is allocated on the contour as a percentage adjustment. However, if comparable worth coverage were extended to all firms regardless of number of employees, the percent of women below the Poverty 1 threshold would fall to 15.3%.

[Table 3 about here.]

In order to standardize the two policies, we calculate how large an increase in the minimum wage would be required to have the same poverty-reduction effect for women as would comparable worth. To find such a "break-even point," we select the Poverty 1 threshold (for a family of 3), a national comparable worth policy excluding small employers, and a flat increase on the minimum wage contour. This "break-even" point helps to directly evaluate the relative effectiveness of the two labor market policies. We estimate that a 96-cent increase in the minimum wage, to $5.21 per hour, would approximate comparable worth's poverty reduction among the poorest women workers. Comparable worth would leave 18.9% of women below the poverty line for a family of 3, while about 17% of women workers would remain below this threshold with a minimum wage increase of 96 cents per hour.[12]

Poverty could also be reduced under either policy if wage adjustments elicited a significantly positive effect on work hours, thus increasing annual earnings. However, we are focusing on the hourly wage that would be necessary for women to move out of poverty if they worked full-time year-round. As a result, we do not model an increase in labor supply (hours worked) which might result from either a comparable worth policy or a minimum wage increase. In fact, recent research suggests that, like men's, the response of working women's hours of work to wage changes is very small, or highly inelastic (Ehrenberg and Smith 1994: 189). Although older studies indicated that women's labor supply was more sensitive to wage changes than men's, as women's labor force attachment has increased, this difference has diminished (see Killingsworth 1983). While it is beyond the scope of this paper, it would be interesting to model whether the more gender-specific policy of comparable worth generated different labor supply effects than a minimum wage increase.

Conclusions and Policy Implications

These results suggest that there are at least two components of poverty-level wages among the working poor. Women are overrepresented in low-wage jobs and work that is done primarily by women is undervalued throughout the economy. Both factors must be addressed to improve the conditions faced by women in the low-wage labor market.

Because of the overrepresentation of women among minimum wage workers, a minimum wage increase under any scenario used above helps women more than it does men in relative terms. However, if the policy goal is to decrease poverty among working women, a comparable worth policy would generally yield a greater percentage reduction in poverty. By adopting a comparable worth policy, the gap between working women's and men's poverty rates would narrow dramatically and the gender-based component of working poverty would be greatly reduced. It would take a 96-cent increase in the national minimum wage to have the same poverty reduction effect for women workers as a comparable worth policy which excludes small employers with fewer than 25 employees. Therefore, high rates of poverty-level wages among women in female-dominated occupations represents something more than a high proportion of women in low-waged jobs.

Comparable worth is sometimes perceived as a middle class women's issue, primarily benefitting jobs requiring high levels of educational attainment. Our findings, that comparable worth would reduce the percentage of women earning poverty-level wages, indicate that this need not be true. By linking discussions of welfare reform to the need for labor market reform and emphasizing the need for all jobs to pay a "family wage", we can shift the focus of anti-poverty measures away from changing attitudes and incentives and toward alleviating the paucity of economic opportunity for low-income women.

The question of who is to pay the cost of comparable worth wage adjustments is bound to arise. In this regard, it is important to recall that government is currently paying for not implementing comparable worth in the form of Earned Income Tax Credits, food stamps, and other transfer payments. Rather than representing an increased cost to government, comparable worth in part shifts the cost of reducing poverty to the private sector. Furthermore, those costs would be relatively small, or less than 4% of payroll (our estimate based on the sample) under a scenario in which small employers are excluded from a nationwide comparable worth policy.

Table 1
Estimated Effects of Comparable Worth

	Women (n=7280)	Men (n=7538)
Before Comparable Worth		
Mean Wage (HRSPAY)	$ 9.79	$12.80
F/M Wage Ratio	.765	na
% Below Poverty 1	25.0%	16.1%
% Below Poverty 2	40.5%	26.5%
% Below Poverty 3	56.0%	37.8%
After Comparable Worth		
NEWPAY: all firms		
Mean Wage	$10.62**	$13.00
F/M Wage Ratio	.817	na
% Below Poverty 1	15.3%**	14.4%**
% Below Poverty 2	28.9%**	24.5%**
% Below Poverty 3	46.2%**	35.8%*
NEWPAY2: excludes small firms		
Mean Wage	$10.41**	$12.94
F/M Wage Ratio	.804	na
% Below Poverty 1	18.9%**	15.0%*
% Below Poverty 2	32.3%**	25.1%
% Below Poverty 3	48.4%**	36.5%

Note: ** or * means the change from HRSPAY to NEWPAY or NEWPAY2 is significant at .01 or .05 respectively (one-tailed t tests). NEWPAY2 excludes employers with fewer than 25 employees at all locations.

Sources: March 1992 CPS; BLS, *Employment and Earnings*, January 1993; Paula England and Barbara Stanek Kilbourne, *Occupational Measures from the Dictionary of Occupational Titles for 1980 Census Detailed Occupations*, ICPSR, 1989.

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Table 2

Estimated Effects of a Minimum Wage Increase to $4.75

	Women (n=7280)	Men (n=7538)
Before Minimum Wage Increase		
Mean Wage (HRSPAY)	$ 9.79	$12.80
F/M Wage Ratio	.765	na
% Below Poverty 1	25.0%	16.1%
% Below Poverty 2	40.5%	26.5%
% Below Poverty 3	56.0%	37.8%
After Minimum Wage Increase		
Scenario 1 (flat increase)		
Mean Wage	$10.00**	$12.92
F/M Wage Ratio	.774	na
% Below Poverty 1	22.1%**	14.8%*
% Below Poverty 2	37.8%**	25.1%*
% Below Poverty 3	54.8%**	37.3%
Scenario 2 (% increase)		
Mean Wage	$10.21**	$13.08**
F/M Wage Ratio	.781	na
% Below Poverty 1	21.2%**	14.3%**
% Below Poverty 2	37.0%**	24.6%**
% Below Poverty 3	53.6%**	36.8%**

Note: ** or * means the change from HRSPAY to the specified new minimum wage is significant at .01 or .05 respectively.

Source: March 1992 CPS.

Table 3

A Policy Comparison for Women: Comparable Worth and a Minimum Wage of $5.15

	Comparable Worth (NEWPAY2)	Minimum Wage (flat increase)	Minimum Wage (% increase)
Mean Wage	$10.41	$10.17**	$10.56*
F/M Wage Ratio	.805	.782	.812
% Below Poverty 1	18.9%	20.6%**	16.9%**
% Below Poverty 2	32.3%	36.8%**	34.6%**
% Below Poverty 3	48.4%	53.8%**	50.8%**

n = 7280

Note: ** or * means the difference between NEWPAY2 and the specified new minimum wage is significant at .01 or .05 respectively.

Source: March 1992 CPS.

Appendix 1

Independent Variable Names and Definitions by Characteristic

VARIABLE	DEFINITION
Human Capital	
High School	1 if high school graduate only; zero otherwise
College Degree	1 if college degree, but no graduate degree; zero otherwise
Grad Degree	1 if master's, professional, or doctorate degree; zero otherwise
Age	Age in years
Age squared	Age squared
Part-time Status	1 if usually work less than 35 hours/week; zero otherwise
Part-time Reason	1 if part-time work is voluntary; zero otherwise
Demographic	
African American	1 if African American; zero otherwise
Latina/o	1 if Hispanic ethnicity; zero otherwise
Other Minority	1 if other minority; zero otherwise
Marital Status	1 if currently married; zero otherwise
Once Married	1 if widowed, divorced, or separated; zero otherwise
Child Under 6	1 if there are children in the family under 6 years of age; zero otherwise
Dependents	Number of related persons in the family under 18 years of age
Regional	
SMSA Small	1 if metropolitan population is < 250,000; zero otherwise
SMSA Medium	1 if metropolitan population is between 250,000 and 999,999; zero otherwise
SMSA Large	1 if metropolitan population is 1 million or more; zero otherwise
Midwest	1 if Midwest state; zero otherwise
Northeast	1 if Northeast state; zero otherwise
South	1 if Southern state; zero otherwise
Industrial	
Agricultural through Wholesale Trade[1]	22 dummy variables that equal 1 if employed in the 2-digit SIC code; zero otherwise
Union status	1 if member of a union or employee association; zero otherwise
Local government	1 if employed in local government; zero otherwise
State government	1 if employed in state government; zero otherwise
Federal government	1 if employed in federal government; zero otherwise
Small firm	1 if employed in a firm (all locations) with 25-99 employees; zero otherwise
Medium firm	1 if employed in a firm (all locations) with 100-499 employees; zero otherwise
Large firm	1 if employed in a firm (all locations) with 500-999 employees; zero otherwise
Very large firm	1 if employed in a firm (all locations) with 1,000+ employees; zero otherwise

Occupational or Job Characteristics

Percent Female	Percent female in 3-digit occupation code
G.E.D.	Formal/informal education required to perform the job (ranges from 1 to 6); includes reasoning, mathematical, and language development.
S.V.P.	Specific vocational training required to perform the job (ranges from 1 to 9); includes training in school, at work, in the military, institutional training, and training in the vocational environment.
Strength	Scale ranging from 1 to 5 of work ranging from sedentary to very heavy; includes standing, walking, sitting, lifting, carrying, pushing, and pulling.
Environment	Scale of 6 indicators of working conditions indicating the absence or presence of environmental factors; includes extreme heat and hold, wet or humid conditions, noise, hazards, atmospheric conditions.
Physical Demands	Scale of 4 indicators indicating the absence or presence of physically demanding tasks; includes climbing, stooping, reaching, and seeing.
Sources:	Current Population Survey, March 1992; BLS, *Employment and Earnings*, January 1993; Paula England and Barbara Stanek Kilbourne, *Occupational Measures from the Dictionary of Occupational Titles for 1980 Census Detailed Occupations*, ICPSR, 1989.

Notes:

[1] Industries include Agriculture; Business Services; Communications; Construction; Education Services; Entertainment; Finance, Insurance and Real Estate (FIRE); Forestry/Fishing; Hospital; (Private) Household Services; Manufacturing-Durables; Manufacturing-Nondurables; Mining; (Non-Household) Personal Services; Other Medical; Other Professional Services; Public Administration; Retail Trade (omitted variable); Social Services; Transportation; Utilities/Sanitary Services; Wholesale Trade.

Appendix 2

Estimated Coefficients from Earnings Equations, Women and Men

Variable	Women	S.E.	Men	S.E.
Intercept	.571**	.076	.934**	.094
Job Characteristics:				
Percent Female	-.118**	.027	-.193**	.030
GED	.135**	.018	.035	.019
SVP	.035**	.009	.067**	.009
Strength	-.011	.012	-.082**	.017
Environment	-.039*	.017	.016	.012
Physical Demands	.008	.010	-.018	.010
Human Capital:				
HS Grad	.096**	.017	.119**	.017
College	.291**	.022	.306**	.023
Grad Degree	.446**	.028	.389**	.028
Age	.029**	.003	.033**	.003
Age squared	-3.1E-04**	3.9E-05	-3.1E-04**	4.2E-05
Part Time	-.092**	.012	-.140**	.016
Involuntary PT	-.032	.024	-.014	.066
Demographic:				
African American	-.049**	.016	-.152**	.018
Latina/o	-.049**	.020	-.115**	.019
Other Minority	-.037	.029	-.084**	.029
Married	.022	.015	.098**	.016
Once Married	.031	.018	.052*	.021
Child Under 6	.046**	.015	.009	.016
Number Dependents	-.010	.005	.009	.006
Regional:				
Small SMSA	.051	.046	.079	.048
Medium SMSA	.094**	.022	.139**	.025
Large SMSA	.098**	.012	.125**	.012
Midwest	-.111**	.015	-.055**	.016
Northeast	.020	.016	-.032	.017
South	-.088**	.015	-.081**	.015

Industrial:				
Union member	.162**	.016	.168**	.015
Local Government	-.017	.023	.071**	.028
State Government	-.022	.028	-.008	.032
Federal Government	.138**	.035	.115**	.034
Small Firm	.018	.017	.107**	.018
Medium Firm	.042**	.017	.134**	.018
Large Firm	.078**	.022	.145**	.025
Very Large Firm	.122**	.014	.215**	.015
Agriculture	.070	.063	.054	.040
Business Services	.168**	.028	.119**	.026
Communications	.329**	.043	.224**	.041
Construction	.254**	.054	.237**	.026
Education Services	.044	.026	-.097**	.031
Entertainment	.111**	.044	.067	.044
FIRE	.211**	.021	.199**	.027
Forestry/Fishing	.071	.259	.053	.185
Hospital	.351**	.024	.083*	.040
Household Services	-.194**	.047	-.051	.126
Manuf. Durables	.250**	.024	.182**	.020
Manuf. Nondurables	.199**	.024	.151**	.023
Mining	.226*	.096	.391**	.063
Personal Services	.097**	.030	-.071*	.037
Other Medical	.238**	.024	.207**	.051
Other Professional	.255**	.028	.093**	.032
Public Administration	.260**	.034	.116**	.035
Social Services	-.102**	.030	-.317**	.054
Transportation	.348**	.037	.236**	.027
Utilities/Sanitary	.322**	.059	.201**	.041
Wholesale Trade	.265**	.033	.229**	.027
Adjusted R^2	.488		.532	
Sample Size	7280		7538	

Note: ** $p < .01$ and * $p < .05$ (two-tailed t tests).

Sources: Current Population Survey, March 1992; BLS, *Employment and Earnings*, January 1993; Paula England and Barbara Stanek Kilbourne, *Occupational Measures from the Dictionary of Occupational Titles for 1980 Census Detailed Occupations*, ICPSR, 1989.

Appendix 3

Occupations in a Wage Cluster with the Minimum Wage, by Major Industry (CPS categories)

INDUSTRY	OCCUPATION(S)
Agriculture	Administrative Support
Mining	—
Construction	—
Durable Goods Manufacturing	Other Service
Nondurable Goods Manufact.	Sales, Other Service, Operators & Assemblers, Handlers
Transport, Communications, and Public Utilities	—
Wholesale Trade	Operators & Assemblers, Handlers
Retail Trade	Executives/Administrators/Managers, Technicians, Sales, Administrative Support, Other Service, Operators & Assemblers, Handlers
Finance, Insurance, Real Estate	Other Service
Business and Repair Services	Sales, Administrative Support, Protective Services, Other Service, Operators & Assemblers, Transportation, Handlers
Personal Services	Executives/Administrators/Managers, Administrative Support, Other Service, Operators & Assemblers, Transportation, Handlers, Private Household Workers[a]
Entertainment and Recreation	Executives/Administrators/Managers, Administrative Support, Other Service, Craft & Repair
Professional/Related Services[b]	Professional Specialists, Administrative Support, Protective Services, Other Service, Craft & Repair, Operators & Assemblers, Transportation
Public Administration	Other Service, Handlers

[a] The two-digit Personal Services industry excludes private households. We have added to the cluster private household workers (who are 90% of the Household Services industry). In the March 1992 CPS, the average wage of this group was $4.84 per hour, and 41% worked full-time. Since 85% usually earned at least $50 per week and 95% earned at least $25 per week, they were covered by the Fair Labor Standards Act.

[b] This industry is an aggregate of the following: Hospital, Other Medical, Education Services, Social Services, and Other Professional Services.

Source: William E. Spriggs and Bruce W. Klein. *Raising the Floor: The Effects of the Minimum Wage on Low-wage Workers*, Washington, D.C.: Economic Policy Institute, 1994; authors' calculations based on March 1992 CPS.

NOTES

1. If the wage is not expressed by the CPS in hourly terms, it is calculated (usual weekly earnings are divided by usual weekly hours).

2. Specifically, the estimated coefficients from Equations 1 and 2 (except the γs) are used to reestimate the following new wage equations:

(3) $ln\ \hat{W}_F = \hat{\alpha}_F + \hat{\beta}_F X_F$ for women and

(4) $ln\ \hat{W}_M = \hat{\alpha}_M + \hat{\beta}_M X_M$ for men.

We then compute the antilog of the predicted dependent variables from Equations 3 and 4 respectively to determine new wages for women and men.

3. Estimates of the wage elasticity of demand for labor (in comparable worth cases and simulations) range from positive but insignificant in Kahn (1992) to significantly negative in O'Neill, Brien, and Cunningham (1989). In a simulation for the state and local sector, Ehrenberg and Smith (1987) estimated elasticities of -.50 and -.75 for noneducational and educational employees respectively. However, Sorensen (1994) finds limitations in each of these studies and finds no significant relationship between wages and employment in jobs targeted by comparable worth. In contrast with specific firms or jurisdictions, the overall wage elasticities of demand for labor tends to be more inelastic for the economy as a whole, as modeled in this study.

4. The estimated coefficients for percent female and variables corresponding to other characteristics are similar to those found in previous research. For example, most empirical studies show that the negative impact of percent female on wages is in the 10-20 percent range (Aldrich and Buchele 1986; Johnson and Solon 1986; Sorensen 1989, 1990; England 1992), depending upon model specification. In addition, human capital acquisition has a

highly positive and significant effect on earnings, and more for high school- and college-educated men than women. The wage penalty for voluntary part-time work is higher for men than for women, and significant. The effect of marital status on earnings is positive and significant for men only. The negative impact on earnings of being African-American, Latino/a, or a member of another minority group is higher for men than women (see Albelda 1985; Sorensen 1989, 1990). Finally, the relative wage advantage of unionization is also higher for men than women; these estimates are closer to Johnson and Solon (1986) than to Sorensen (1990). However, the magnitude of our estimates reflect those in the industrial relations literature (see Freeman and Medoff 1984; Lewis 1986).

5. Our calculations of the poverty thresholds are based on the hourly wage that would be necessary to move out of poverty with full-time year-round work (2000 hours), although the data set includes both full-time and part-time workers. We recognize that many women work part-time, and that the two labor market reforms might have different effects on full- and part-time workers. Investigation of this hypothesis would be an area for further research.

6. The average size of working nonpoor female-headed families in 1990 was 3.1 persons and 3.8 persons for working poor female-headed families. The average family size of working poor female-headed families by race was 3.1 for white, 3.9 for black, and 3.9 for Hispanic (Levitan, Gallo, and Shapiro 1993: 24).

7. This hourly wage assumes: a working mother has two children (one aged 5-12 years and one child younger than 5 years); the employer pays 100 percent of a health care premium; the mother receives no noncash benefits such as the earned income tax credit or food stamps; and represents income after taxes (Renwick 1993).

8. To identify occupations and industries in the minimum wage contour, Spriggs and Klein utilize hourly wages for high school graduates who completed school within the past ten years (1994: 75).

9. In their regression, the dependent variable is the average wage on the minimum wage contour. A coefficient of .679 is estimated for the relevant independent variable, the value of the federal minimum wage.

10. The demographic characteristics of workers on the minimum wage contour are comparable to profiles of minimum wage workers, i.e. primarily women and disproportionately African-American.

11. For the economy as a whole, labor demand is relatively inelastic. For current purposes, we also assume that noncompliance with the minimum wage laws is not an issue for two reasons. First, noncompliance with the minimum wage is mostly with overtime requirements rather than with a straight wage increase (Sellekaerts and Welch 1984). Second, we assume the degree of noncompliance will not change with a new minimum.

12. There is a "jump" in poverty reduction between a 95-cent and a 96-cent increase in the minimum wage. This appears to be due to a large number of workers on the minimum wage contour earning exactly $5.00 per hour. Since 68 percent of a 96-cent increase in the minimum wage would yield a $.65 adjustment in wages for those on the minimum wage contour, a group of workers is raised just above the Poverty 1 threshold of $5.65 per hour in 1992.

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Mr. Chairman and members of this Committee, thank you for inviting me here today. My name is Herman Cain. I am President and Chief Executive Officer of Godfather's Pizza, Inc., a 525-unit pizza restaurant chain headquartered in Omaha, Nebraska. I am also President of the National Restaurant Association, the leading trade group for the U.S. restaurant and foodservice industry.

There are nearly 740,000 foodservice units in this country, including everything from fast-food chains to fine-dining restaurants. We are an industry dominated by small businesses, and we employ a diverse workforce of over nine million people. Our employees are white, African-American, Hispanic-American, Asian-American, and more. We expect to employ 12.5 million by the year 2005, with the fastest growth coming in the category of foodservice managers. More than 30% of Americans under age 35 had their first job in the restaurant industry. Restaurants offer an important boost into the job market for millions, as well as a clearly-defined career path for those willing to work hard and stay in the business.

There are numerous reasons why I firmly believe a minimum wage increase is attacking the wrong problem. Allow me to list the three reasons I believe to be most important.

First, mandated wage increases reduce entry-level job opportunities.

A few weeks ago, a colleague in Oregon told me about a homeless 17-year-old he hired in the mid-1980s. He gave the teenager a job chopping lettuce, deveining shrimp and sweeping floors. That 17-year-old has worked his way up: He's now the executive chef at the restaurant. But the job that brought him into the business no longer exists. When Oregon raised its minimum wage a few years ago and the restaurant owner looked for ways to cut costs, this job was one of the first to go. Now, my colleague buys lettuce already chopped from a nearby automated facility.

It's a good example of the split personality of the minimum wage. When you make it more expensive to hire people who lack basic work skills and experience, you risk shutting them out of the workforce.

President Clinton and Secretary Reich use several new studies to argue that a minimum wage increase may actually pull people back into the job market by attracting people unwilling to work at the old wage. Economists who've scrutinized these studies question their conclusiveness. I believe even the authors of these studies would caution policymakers about drawing unwarranted conclusions. And remember: No one has ever shown that any jobs were created by an increase in the minimum wage.

Even if you believe that you'll draw more people into the job market by increasing the minimum wage, a recent study by the Employment Policies Institute Foundation maintains that this puts welfare mothers at a competitive disadvantage. This makes intuitive sense: If the pool of people competing for a job gets bigger, the people with the most skills and experience have the edge. And those with less experience lose out—because while you can legislate pay, you can't legislate productivity.

My second point: A minimum wage increase jeopardizes existing jobs by threatening the businesses or business units that may be marginally profitable. When you raise the cost of doing business for the many thousands of businesses that are barely making it, you risk shutting their doors permanently. In my case, for example, Godfather's Pizza, Inc., has nearly 150 company-owned and operated units. Admittedly, a few of them are either marginally profitable or not profitable at all.

When you're running a restaurant that's on the edge, you're scrutinizing every penny. Can ninety cents an hour put me under? It could. Maybe not by itself—but when labor accounts for about 30% of my expenses, second only to my food costs, a mandated wage increase is one more factor tipping the balance. A mandated wage increase triggers wage inflation by rippling up through the entire wage spectrum and by causing increases in payroll-related expenses like FICA taxes.

Some people would say "Just raise your prices." It doesn't work that way. In a competitive market, that's the fastest way to drive away customers with limited discretionary income. Ultimately, this could close a business that's barely making it.

My third point: A minimum wage increase is an ineffective way to raise someone out of poverty. Most minimum wage earners are part-time workers under age 25 — mostly first-time workers, students, people holding down second jobs or supplementing the income of their household's primary earner. In my restaurants, for example, nine out of ten of my hourly employees choose to work less than 35 hours a week—even though full-time work is available. These are not the people being targeted for help. Policymakers from all sides of the political spectrum say minimum wage increases cannot effectively target the working poor. By shooting wide and hoping to hit the right target, you're taking a gamble with harmful side effects.

The best way to lift a family out of poverty is to get people into the job market and give them a chance to acquire skills. I think of my father, who worked three jobs until he was skilled enough to cut back to two jobs, and who kept going until his skills were good enough that he could support us on one job...as an hourly worker.

I've listed the three main reasons I believe a minimum wage increase attacks the wrong problem but I could add more. Like the danger of a federal mandate that prescribes the same minimum wage increase for a mom-and-pop restaurant in rural Nebraska as it does for a restaurant located in a high-cost-of-living metro area. I'd also argue that the laws of supply and demand do a pretty good job of setting wages according to the specific conditions of specific markets. And finally, I'd note that Congress has been playing close attention to the state and local officials—Democrats and Republicans alike—who say "enough is enough" when it comes to picking up the tab for unfunded federal mandates. Please give businesses the same hearing: An increase in the minimum wage is also an unfunded federal mandate. Someone pays—and it's usually the entry-level employee.

I urge you to look deeper for solutions. The Earned Income Tax Credit, for example, encourages work and takes the benefit directly to the working families who need it most—without jeopardizing jobs.

A range of experts—from the thinkers at the think tanks to the social workers at local welfare agencies—recognize that some people lack the skills to make them competitive for entry-level employment. This drives national policy: It's why you see the federal government spending billions on job training. It explains the Targeted Jobs Tax Credit, which encourages businesses to hire employees who typically have a hard time gaining a foothold in the job market. It's why President Clinton and Congress set up empowerment zones to get businesses to hire in impoverished areas. These programs rightly recognize that some workers may be overlooked if it gets too expensive for a business to hire them. Congress should look for ways to encourage people to go to work and businesses to hire, not make it more expensive for employers to hire low-skilled employees.

You're getting a good dose of information lately on the theories behind successful welfare reform. In businesses like ours, real life crowds out theory. While our main expertise is in getting out good meals at good prices, as entry-level employers we've also become fairly expert at finding ways to help millions of troubled teens and troubled adults get beyond the truly daunting barriers to employment. We see that entry-level jobs provide training in the fundamentals — reliability and teamwork, to name just two — that yield long-term values that are hard to duplicate in the most well-funded government programs.

Right now we have more than four million people earning the minimum wage, 7.8 million people collecting unemployment and nine million adults receiving welfare payments. Tackle the right problems first. Focus on creating more jobs, not on raising the cost of entry-level employment; not on eliminating existing jobs; and not on taking away the opportunity for people to determine their own futures. A minimum wage increase doesn't attack the right problem. I urge you to reject it.

PREPARED STATEMENT OF SENATOR KENNEDY

This is am important hearing on an issue which is of great significance to all Americans, and I appreciate the opportunity to hear the testimony of these witnesses today.

President Clinton has proposed an increase in the minimum wage of $.90 an hour, and Democrats in Congress have joined in support of the President's bill. This hearing marks the beginning of formal Congressional consideration of that legislation, and I am confident that it will come to a vote before the first 100 days are up.

Some 11 million workers who are currently working at jobs that pay less that $5.15 an hour would be directly affected by enactment of a $.90 increase. But this is an issue that affects all Americans, because it is a test of whether we are willing to reaffirm our commitment to the principle that all those who, in the President's words, work hard and play by the rules are entitled to a fair share of the benefits of prosperity and economic growth.

The principle that the minimum wage should be a living wage served this nation well for more than 40 years following the enactment of the first minimum wage law in 1938. In the decades that followed through the end of the 1970's, Congress addressed the issue six times. And six times bi-partisan majorities -- with the support of both Republican and Democratic Presidents -- reaffirmed the nation's commitment to a fair level of the minimum wage for America's workers.

But in the 1980's, that commitment was abandoned. From 1981 through 1989, the minimum wage was allowed to fall. In real terms, to the lowest value in its 50-year history. The modest increases enacted in 1989 – which brought the minimum wage up from $3.35 to $3.80 in 1990 and to $4.25 in 1991, provided some measure of relief to low-wage workers. But those increases restored only about half of the purchasing power lost during the 1980's, and since then inflation has eaten away much of what was gained with those increases. In real terms, the minimum wage is now 27% lower than it was in 1979, and if we fail to act this year, by 1996 it's purchasing power will be lower than it has been in any year since 1955.

As minimum wage workers have seen their wages drop, those at top of the heap have seen their fortunes soar. Since 1980, corporate profits have risen by 155%, and executive pay has climbed by a whopping 514%. Last year, the average CEO of a major company made $3.8 million a year.

As we all could have predicted, opponents of the minimum wage have greeted the President's proposal with the same "sky is falling" predictions of job loss and damage to the economy that have been made every time the minimum wage has been increased since 1938. And as we have seen in the past, many of those who are objecting the loudest are those who are doing the best in this economy, including corporate leaders in the fast food industry, where CEO's like the head of McDonald's make millions of dollars a year.

Many who oppose the minimum wage cry crocodile tears for the low-wage workers they claim would be hurt by an increase in the minimum wage. But have any of them ever tried to live on $8,500 a year? That is less than what the average CEO of a major company makes in 4 ½ hours.

The theory that increases in the minimum wage necessarily result in job losses has never had solid empirical support. Studies by leading economists who have examined the results of recent increases in both state and federal minimum wages have conclusively shown that theory to be at odds with reality.

We will hear testimony today about those studies, as well as testimony on behalf of thousands of small business owners represented by Business and Professional Women USA who know that fairness requires that the minimum wage be increased.

I look forward to their testimony and to prompt, bipartisan action on this well-deserved increase.

Mr. Chairman, members of the Committee. My name is Grant Maloy, owner and operator of Gabriella Growers, a wholesale foliage nursery located near Orlando, Florida. I grow houseplants which are sold throughout the country. I thank the Joint Economic Committee for the opportunity to appear before you today. I think it is vitally important that the United States Congress hear from small business owners and entrepreneurs such as myself, about the impact of proposed government policies on small business. Business owners, like me, are the ones who have to deal with the aftermath of our lawmaker's actions, and I appreciate the Committee giving the small business voice, a voice in this process.

I started my own small business -- it began as a 2,700 square foot greenhouse and today totals 19,000 square feet. One thing that I did not learn in college, was that if you decide to take the plunge into entrepreneurship, the government will be a roadblock at each stage. The first hurdle starts at the county level, with the last at the federal level. As a small business owner, you face zoning, license, code enforcement, sign restrictions, and fire inspectors from local government. As you move to the state level, worker's compensation, business inspectors, more regulations, fees and taxes. Then, at the federal level there are social security taxes, unemployment taxes, income taxes, OSHA and the list goes on and on.

If it were not for family to help and guide me through the tax and regulatory mazes and hurdles that exist, I probably would have never tried to start a business. And, if I did start one without their help and assistance, there is a good possibility I would have failed. Not because of marketing, sales, or employee problems -- but due to government-imposed barriers.

My business defines what the "small" in small business means. My annual sales totaled $60,000 last year. I began my business from scratch, working part-time at it in 1987, and full-time in 1990. I believe that I represent many of the struggling, start-up businesses throughout America.

I oppose an increase in the minimum wage, because it creates just another roadblock for new or expanding small businesses. The market place works, and the academics and bureaucrats in government should stop imposing some artificial wage rate on business, especially when it has been proven that wage tinkering creates additional job loss and hurts those it purportedly is supposed to help.

The Market Place Works

In my industry, many low-skilled workers are hired. The entry level positions currently pay an average of $5.24 an hour. Competition is strong in the greenhouse industry with wholesale prices remaining nearly the same for over a decade. Yet, wages have increased because of pressure both within the industry and from other industries, as well as the need to keep quality employees.

Employees should be paid based on their productivity and worth, not on some theoretic number selected by politicians for political reasons. I remember two years ago when even President Clinton said that increasing the minimum wage is "the wrong way to raise the incomes of low-wage earnings." Now because of political pressure from organized labor, and new attempts to inflict class warfare into his political strategy, the President has flip-flopped on another key issue of his 1992 campaign.

The laws of economics are as strong as the laws of physics. If you try to bend the rules, you will end up with distortions, and often a disaster. If an employee is not going to produce $4.25 or $5.15 per hour, a business can't afford to pay them that. Persons trying to get their start, and jump onto the economic ladder suffer because they will be unemployed and unskilled. If you take a look at the enormous unemployment rate amongst teenagers and inner-city residents, you will see how the setting of arbitrary wage-rates bears this claim out.

Unfortunately, the real losers of a minimum wage hike will be the individuals whose skills do not allow them to compete successfully for the entry level job.

Hypocrisy of Government Policies

Another reason I am opposed to the minimum wage is due to the fact that it is a hypocritical policy. The government expects a business owner to pay a minimum wage, when the business owner themselves may not make minimum wage.

When I started my business, I was making about $2.00 per hour. I am not complaining because I was sacrificing to pay off a business loan and I was investing in my future. I enjoyed, and still do, the challenge of creating a business and future for myself.

In essence, the minimum wage is just another unfunded mandate from Washington. The President or Congress sets the policy, and then passes the buck. In this case, hard-working small business owner are left to handle the problem.

Government Micro-management

How is it possible that one central government can know what millions of businesses can afford to pay? Economic decisions and business productivity varies from region to region, city to city, etc. It is ludicrous for the government to think it knows what is best for everyone. If this system did work, Congress should raise the minimum wage to $50 per hour, and poverty, presumably, would be solved.

Already, government taxes and regulations at all levels cost my business plenty. If I want to expand my business, which I intend to do, and need the help to do it -- I will find less expensive ways to get the work done since I may not be able to afford a new employee at the new wage rate. Increasingly the government is setting up more hurdles to create jobs in this country. On the one hand small businesses have been lamented by the Administration for not doing enough (paying enough, providing health care, etc.) for our employees. At the same time, they are discouraging us, because of proposed policies like the minimum wage hike, to actually employ people.

The Real Problem and Real Solutions

The government's goal should be to protect free enterprise and entrepreneurship. Rather than punish business and success, the government should ask..."How do we increase economic prosperity for all businesses and all workers?"

Prosperity will only increase if Congress removes government-imposed hurdles that are strangling small business and entrepreneurship. If you really want to help small business owners like me the answers are simple: cut taxes, reduce regulations and praise entrepreneurship. Don't bash business.

Finally, the government can encourage strong families. When I think back to what helped me the most on the road to entrepreneurship, it was not the government or school. It was the experience I received working for my dad's small business, and the encouragement and support that my parents gave me.

I do not need more government-imposed rules or regulations on my small business. The government's role should be to protect, preserve and enhance small business. The proposed minimum wage hike flies in the face of these three principles, as well as the message that all Americans are sending government -- that it spends, taxes, regulates and meddles too much.

I urge the U.S. Congress to let the minimum wage proposal just remain that -- a proposal. The minimum wage's days have long been numbered, and breathing life into this misguided proposal would not only be bad for small businesses like Gabriella Growers, but bad for the current and future workers of America as well.

Once again I thank the Committee and look forward to answering any questions you may have.

TESTIMONY BEFORE
THE JOINT ECONOMIC COMMITTEE OF THE CONGRESS OF THE UNITED STATES
ON THE
PROPOSED MINIMUM WAGE INCREASE

By

Charles P. Fuller
February 22, 1995

Mr. Chairman, members of the committee, I would like to thank you for affording me the opportunity to participate in this great democracy in which we live.

I am here today to voice my specific concerns about the impact on my business of the proposed increase in the minimum wage rate and to express briefly, if you will permit me, more general concerns about the principles at issue in this type of legislation.

My first job was at fifteen working as a janitor in a bookstore. I was paid minimum wage by a small business owner who took his time and money to train me and give me my first work experience. It was there that I began my climb up the socio-economic ladder.

I now operate three private bookstores serving the faculty and student body of the University of Georgia. I am in competition with both the State of Georgia, which operates its own bookstore on the campus, as well as with a branch of a large national bookstore chain. Book prices are set by publishers and are controlled by the competitive nature of the business. I cannot raise my prices to offset the increased cost of labor resulting from this legislation, nor do I have any effective way of reducing other overhead costs.

My employees are students, from all walks of life, struggling to put themselves through school. They are well-motivated, young people out to further their education and are glad to find part-time work with flexible hours and other benefits that directly affect their lives. I presently have four salaried employees, eighteen hourly wage workers and regularly hire an additional fifty to seventy-five minimum wage workers at the beginning of each quarter. If the minimum wage rate is increased, you will be voting a pay-raise for my entire hourly staff without providing me with a means to fund that pay-raise. If I am to be fair to the employees who have WORKED and EARNED raises above the minimum I must increase their wage by the same proportion as the minimum increase. Unfortunately I cannot afford to absorb this increase.

If this committee chooses to recommend the increase in the minimum wage you will also be choosing the unemployment line for 3 of my hourly employees and 25 of my temporary employees.

Minimum wage is viewed by many in this country as a right to a particular life style. Instead it should be viewed as the first step of opportunity to a better life. Minimum wage is not a living wage and should not be represented to the American people as a living wage. Minimum wage is not a reflection of what a person is worth but should be a reflection of what the market will bear. As an employer, todays minimum wage allows me to hire unskilled or first time workers and train them at a wage that is economically feasible. If you raise it the wage will no longer be feasible and some of these jobs will be lost. The sweat shop conditions of the 1930's that created a need for the minimum wage no longer exist. I believe that employers operating in a free market economy will pay labor a fair market rate. When I can no longer hire the quality of employee that I desire for what I am paying, then and only then ,should I raise my wage rate. It should be the employers choice brought about by the demands of the market place, not because it was mandated by the government.

If this august body truly wishes to raise the standard of living for entry level minimum wage employees the answer is simple. Fund it yourself by releasing all hourly employees from the burden of withholding taxes. This will increase the employees check by as much as 20% and still allow employers to hire the number of employees they need to remain competitive.

I urge you to reject the minimum wage increase so that small businesses can continue to provide the same opportunities that I was afforded as a young worker.

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The Leading Advocate for Working Women

TESTIMONY OF

AUDREY TAYSE HAYNES
EXECUTIVE DIRECTOR
BUSINESS AND PROFESSIONAL WOMEN/USA
before the
JOINT ECONOMIC COMMITTEE

Chairman Mack, Vice Chairman Saxton and Members of the Joint Economic Committee, thank you for the opportunity to provide testimony. I am Audrey Tayse Haynes, executive director of Business and Professional Women/USA, a non-partisan organization representing 80,000 working women with 2800 local organizations – one in every congressional district. BPW is dedicated to achieving economic equity for all women in the workplace. I am also a small business owner.

Most of our members will be affected by an increase in the minimum wage: BPW members include business owners, corporate managers, professional and hourly workers. Because of this, our board of directors, which includes small business owners and representatives from every state, overwhelmingly passed a resolution on Saturday, February 4, 1995, supporting an increase in the minimum wage to $5.15/hour. As business and professional women, we know all too well who works in low-income jobs: women. In fact, more than three out of every five workers earning the minimum wage or below are women.[1] These women are individually striving to support their families, to avoid having to rely on the government for their next meal. Yet the current minimum wage falls well short of enabling them to become self-sufficient.

While many say the government has no place in setting a minimum wage; the free market should decide wages, we, as business and professional women, recognize, as does Congress, that the free market doesn't work the same way for women and ethnic minorities as it works for men. After all, Congress passed the 1963 Equal Pay Act and Title VII of the 1964 Civil Rights Act, without which women would continue to be discriminated against in pay, in working conditions and in hiring and promotion decisions. The government does have a proper role to play in preventing discrimination and ensuring equal treatment. Without a liveable minimum wage standard, members of disadvantaged groups are likely be forced to work for less and less.

As an organization with a significant constituency of small business owners, the last thing BPW would support is legislation leading to the decline of viable small businesses. Our members know that is not what will happen if you increase the minimum wage.

Joyce Draper, a BPW member is the owner of Autobell Carwash Company in North Carolina, a business employing approximately 320 workers, about half of whom are high school and college students earning between $4.50 and $4.75 an hour and who would be directly affected by an increase in the minimum wage. However, Joyce Draper supports raising the minimum wage. Having been in business 30 years, she has had the experience of minimum wage increases and changes in our economy. "A good businessperson looks at the labor market, at trends, and prepares for changes," says Draper. If this increase goes through, Joyce Draper will not respond to it by laying workers off or by not filling vacant positions. Primarily, Joyce will offer smaller discounts to her large fleet accounts, and possibly raise carwash rates 25 cents. Her philosophy is that "you have to be fair to your employees or you're not going to keep them."

Margie Bryce echoes Joyce Draper's sentiments. Margie is the co-owner of the Annapolis, Md.-based Hats in the Belfry, a six store retail chain in the mid-atlantic region employing fewer than 50 workers. While all of her employees make above the minimum wage, several employees' wages are closely linked: if there is an increase in the minimum wage, their income will go up as well. Margie Bryce will not decrease the size of her work force. "Are you really going to look at a job and decide that it doesn't get done rather than pay a little more to get it done?" Bryce asks. In a retail business, your business volume depends on your ability to serve your customers. Raising the minimum wage will not hurt that ability, it may even improve it if worker satisfaction increases.

Research shows that job loss is not the result of raising the minimum wage. Employers find alternate ways, as Draper and Bryce do, to offset any increase in their payroll. In studies done in Pennsylvania and New Jersey, in Mississippi and North Carolina, and in Texas, no connection between increasing the minimum wage and job loss has been found.[2]

But keeping the minimum wage at its present level (a level 26 percent below the real purchasing power it had in the 1970s, and 35 percent below its peak in 1968), would have dire repercussions. Our strapped social welfare system has and will continue to subsidize the wages of these workers. Members of Congress and talk radio personalities are often heard complaining that people are unwilling to work, that they rely on the government to take care of them. Yet, in a family of three, with one worker, the minimum wage places them well below the poverty level, rarely with any health or child care benefits. Even a 50 cent increase in the minimum wage can move 17 percent of the working poor above the poverty threshold.[3] Imagine what 90 cents could accomplish!

Even with the introduction and expansion of the Earned Income Tax Credit (EITC), which BPW applauds, a worker supporting a household of four will earn 25 percent below the poverty level: for a smaller household of three, the combination of the current minimum wage and the earned income tax credit will not raise them out of poverty.

Picture this: a single parent, typically a woman: the typical minimum wage earner. She works 40 hours a week, and has two children. She earns $4.25/hour working in a discount store as a clerk. She earns $182.26 per week after taxes and receiving her advanced EITC.[4] While she's working, she needs child care. Let's say that one child is in elementary school and participates in a free after-school program. Her other child is then cared for in one of the very few low-cost licensed child care centers available in her community. She pays $50 for 50 hours a week of child care.[5] She pays an average of $65 a week (or $1.03 per person per meal) to feed her family.[6] She pays an average of $50 a week to clothe herself and her children, purchase personal and health care products and pay for doctor visits.[7] Fortunately, her family is healthy. She's also resourceful and found housing for $365/month ($85/week) for herself and her children, including utilities and phone. Her transportation to and from work, the day care center, the school and the grocery store averages $19/week.[8] This deal leaves her $87 in the hole each week. However, she does qualify for food stamps: about $42/week[9]. If she were among the 25 percent of single parents receiving child support, with a responsible father, she could receive an additional $150/month in child support, or $35/week[10]. But she's not. Instead, she falls $45 behind each week, remains in poverty, and is unlikely to have health insurance. She cannot wait until the end of the year when she will receive the rest of her EITC of $1,011, which will still leave her $1,329 short for the year. If the minimum wage is to be the bare minimum that will bring this woman out of poverty, it's not working.

In conclusion, BPW/USA supports an increase in the minimum wage and we are not alone. Three quarters of the American population agree with us. And in 1989, more than 90 percent of Congress agreed with us, as you passed the last increase in minimum wage, a bipartisan effort.

Thank you for your time. I look forward to responding to your questions.

[1] U.S. Department of Labor, Bureau of Labor Statistics.

[2] David Card and Alan B. Krueger, "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, vol. 84. no. 4., September, 1994.

William E. Spriggs and Bruce W. Klein. *Raising the Floor: The Effects of the Minimum Wage on Low-Wage Workers*. Washington, DC: Economic Policy Institute, 1994.

[3] Debra Figart and June Lapidus, *Minimum Wage's Anti Poverty Strategies*. working paper, 1994.

[4] BPW Calculations based on 1994 tax schedule for a single parent of two children under 13 living in Prince Georges County, Maryland.

[5] The average amount a parent pays for child care is around $100/week.

[6] U.S. Department of Labor.

[7] Barbara R. Bergmann. "Curing Child Poverty in the United States" *The American Economic Review* v. 84 (May 1994), p. 77.

[8] Ibid.

[9] The United States House of Representatives, Ways and Means Committee, *1994 Green Book*.

[10] Ibid.

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The Leading Advocate for Working Women

For Immediate Release:
22 February 1995

Contact: Jane Tobler
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BPW/USA Supports Increase of Minimum Wage

Washington, D.C. -- Audrey Tayse Haynes, Executive Director of Business and Professional Women/USA testified today in front of the Joint Economic Committee on the importance of raising minimum wage.

On February 4, 1995 the BPW Board of Directors (comprised of small business owners and members from each state) overwhelmingly voted to pass a resolution in support of increasing minimum wage.

Tayse Haynes, herself a small business owner remarked, "In 1989, the last time the minimum wage was increased, more than 90% of the House and Senate voted in favor of the proposal. If it was a bi-partisan issue then, it should be a bi-partisan issue now."

Tayse Haynes said, "Members of Congress and people on talk radio complain that people are unwilling to work, that they rely on the government to take care of them, yet in a family of three, (with one adult worker), today's minimum wage places them well below the poverty level..."

Business and Professional Women/USA (BPW/USA) has been the non-partisan leading advocate for working women since 1919. With 2,800 local organizations and 80,000 members, BPW/USA's mission is to achieve equity for all women in the workplace through advocacy, education and information. The BPW Foundation, established in 1956 as the educational arm of BPW/USA, advances this mission through community awareness, research on issues affecting women in the workplace and financial assistance for women to further their education.

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BPW/USA FACT SHEET

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PUBLIC RELATIONS MANAGER

BPW/USA

The National Federation of Business and Professional Women of the United States of America (BPW/USA), founded in 1919, promotes equity for all women in the workplace through advocacy, education and information. With over 80,000 members in 2,800 local organizations represented in every congressional district in the country, BPW/USA includes among its members women and men of every age, race, religion, political party and socio-economic background.

BPW/USA monitors federal legislation that affects working women and educates its members to become involved in public policy development in their own workplace, and at the local, state and federal government levels. As one of the original backers of the child labor laws and among the first of the women's organizations to endorse the Equal Rights Amendment in 1937, BPW/USA has been a leader in passing much of the nation's landmark civil and women's rights legislation including:

- The Child Care Act of 1991
- The Women's Business Ownership Act of 1988
- The Equal Credit Opportunity Act of 1974
- The Civil Rights Act of 1964
- The Equal Pay Act of 1963
- Title IX of the Civil Rights Act of 1964

Legislative Platform

BPW/USA annually releases its national legislative platform, which includes planks that call for:

Economic Equity
Ensure pay equity and equal educational opportunities at all stages of life; and promote affordable, quality dependent care to help ensure economic self-sufficiency.

Health
Ensure reproductive choice and full access to all reproductive health services and education; ensure funds for research into protection for women's health care needs; and encourage the development of a national health plan recognizing the special health care needs of women.

Civil Rights
Ensure equal rights and remedies for women in all phases of their lives; eliminate sexual harassment and violence against women.

BPW's political action committee, the BPW/PAC, provides contributions and endorsements to women and pro-women candidates who support BPW's legislative priorities.

The BPW Foundation

BPW's Foundation collects, conducts and analyzes research on issues affecting women in the workplace while providing financial assistance for women to further their educations. The Foundation, which has awarded over $5 million in scholarships, loans and grants to some 7,000 women, raises money to educate women who need additional skills to advance in their careers or re-enter the job market, and to research and disseminate information about women in the workforce. The Foundation's Marguerite Rawalt Resource Center, one of the nation's first and most comprehensive libraries dedicated to working women's issues, serves as a reference source of information for members and over 200 other libraries across the country.

Next Event

The BPW/USA annual conference July 15-18, 1995, Tulsa, Oklahoma

89-804 0 - 96 - 6

PREPARED STATEMENT OF PETER DAVID BRANDON

"Minimum Wage Policy and Welfare Participation"

Proponents of raising the minimum wage argue that such a measure would move single mothers off welfare and into jobs. Plainly, a key mechanism for reducing welfare dependency among single mothers is to make work pay, something that the Earned Income Tax Credit is beginning to do. Until we make more progress, living standards of welfare mothers and their children will remain low, few will be able to exit welfare through paid employment, and their children will learn that working hard and playing by the rules may not be enough to escape poverty or welfare dependency.

Thus, developing an effective employment strategy to move single mothers from welfare to work is paramount. Everyone knows that getting mothers off welfare and into stable jobs that pay a living wage benefits them and the nation as well. I am skeptical, however, that raising the minimum wage would help single mothers leave welfare or solve their economic problems.

Scholars have not reached a consensus on the antipoverty effectiveness of minimum wages; indeed, a number of them seriously doubt that raising the minimum wage would reduce poverty. Some economists suspect that minimum wages, on their own, are "badly targeted as an antipoverty device" and question whether increases in the minimum wage close the gap between rich and poor. Moreover, research results that have been driving the debate over minimum wages have pertained to low-wage workers and teenagers, not welfare recipients. I know of no direct evidence suggesting that raising the minimum wage would encourage welfare mothers to work, even though some have stated that a new increase would indeed move welfare recipients into the work force.

At this time, stating that an increase in the minimum wage would, by itself, convert welfare mothers into gainfully employed citizens is hopeful speculation. There is no evidence to support it. In fact, my current research suggests the opposite. My study indicates that a rise in the minimum wage may extend, not shorten, the length of time mothers spend on welfare. When I examined spells of welfare receipt among single mothers, I found that spells were longer among mothers who lived in states with high minimum wages or who lived in states that increased their minimum wage.

My research on this topic is ongoing. Presently, I am moving in two directions that are directly relevant to our discussion today. First, I intend to reanalyze my data in order to further test my results. This will involve incorporating fresh data on cost of living differences across states and additional data on the generosity of welfare benefits across states. Second, there are two other important groups of single mothers that I intend to investigate because their jobs could be affected by increases in the minimum wage: former welfare recipients who are now working but just getting by, and single mothers who have never been on welfare but are also economically vulnerable. When the results are ready, I would be happy to share them with you.

Given my findings and economic theory, in my judgment raising in the minimum wage will not move a large number of welfare mothers into the work force, although it could very well benefit other low-skilled workers in certain sectors of the economy. Besides, the proposed size of the increase would not solve these mothers' economic misfortunes. My back-of-the-envelope calculation suggests that Congress would need to increase the minimum wage to at least $9.50 an hour to ensure that a welfare mother with two children could support herself and her children from her earnings alone.

As I stated earlier, we need effective employment policies for single mothers so that they can get a paycheck instead of a welfare check. In my opinion, there are better ways of promoting economic independence among welfare mothers than raising the minimum wage.

For starters, we need macro-economic policies that promote a healthy economy, which would serve all workers, not just those with few skills.

Employment policies should give former and present welfare mothers greater incentives to work. Many more welfare mothers work than people realize. Their efforts should be encouraged either by raising the earnings disregard of the Aid to Families with Dependent Children (AFDC) program or by lowering its benefit reduction rate. Beyond such tinkering, maintaining the current level of EITC benefits is pivotal because it rewards work. If the aim is to convince single mothers that welfare is temporary, then those who are not working should attend job training or remedial education programs, like JOBS or JTPA.

Finally, mothers who move off welfare and into jobs need employment-related services and other assistance. Many former welfare mothers return to welfare because there are too many uncertainties. Irregular child support payments, unstable child care arrangements, and inadequate health insurance make welfare look more attractive than juggling a job and family demands. Policies that promote stability in the early phase of economic independence, like child support enforcement and the Dependent Care Tax Credit, are essential to keeping women from returning to welfare. These sorts of policies targeting former welfare mothers and current recipients will be more effective than raising the minimum wage.

Thank you for giving me the opportunity to comment on this issue.

PREPARED STATEMENT OF FINIS WELCH

To understand that minimum wages are one of the cruelest constructs of an often cruel society you need only acknowledge that as a general rule people do as well for themselves as they can; inclusive of working conditions, fringe benefits, chances for advancement and pay, more is preferred to less. You need also acknowledge that when wages are increased by fiat there is no accompanying increase in productivity. It follows that you do no one a favor by passing a law that says if they cannot earn more they cannot work.

To see the perversity of such a law explore the alternatives available to employee and employer when the minimum wage is increased. The employee's alternative is to find a job that pays more or become a non-employee. That's it. The employer and the consumer (the employer's employer) have more extensive menus. The obvious alternative is to substitute in favor of employees who would earn more in any case; after all, the vast majority of workers have wages that exceed even the most aggressive proposal for wage floors. A second alternative is to outsource, to subcontract those activities where employee wages are low by going abroad or to self-employed contractors (since we have been unable to devine a scheme for imposing wage floors on the self-employed). A third alternative is to automate, to substitute machines that do not have legislated minimum prices. Finally, there is the alternative of just cutting back. If minimum wages accomplish anything, they increase the employer's cost and the purchasers of its product or service will search for lower priced alternatives. This may include choosing the same products from abroad or switching in whole or in part to different products. If the consequences of minimum wages are so straightforward, why do so many support them and what do the data show?

Regarding support for increased minimums, it is informative to observe who supports them. The hearings by legislative panels I have attended have invariably had testimony by organized labor favoring higher minimums although none of those testifying represented workers with wages below the proposed minimums. Is this altruism or a clear understanding that bargaining positions strengthen when substitutes become more expensive? In one of the more revealing exchanges, I attended hearings in 1973 before the House of Subcommittee on Labor regarding a proposed increase that was sponsored by the Honorable John Dent of Pennsylvania. After lengthy questioning regarding my research, Congressman Dent volunteered, "I was here in 1938 when we passed the Fair Labor Standards Act. We had to do something; we were losing all of our jobs to the South...". Was the support of the original Act based on a desire to help low wage workers in the South or was Northern manufacturing demonstrating an understanding of the simplest economic principles?

Regarding the data, few topics have been more researched. One line questions who would benefit if wages below a hypothetical minimum were raised. The other is not hypothetical. It examines the historical record comparing employment changes to increases in the minimum. The hypothetical work is an accounting exercise that records the incomes and characteristics of families where minimum wage workers reside. Researchers who have written on this point show no disagreement; the most recent paper (Horrigan and Mincy) -- published in 1993 -- divides families into five equally sized groups according to total income. The authors define minimum wage families as those having at least one minimum wage earner and, using data for 1987, they identify where minimum wage families fall in the distribution of family income. The results are:

As shown, each quintile is defined to have exactly 20% of all families; it is coincidental that representation of families with minimum wage workers is for practical purposes also 20%.

This result stems from two offsetting forces. Almost a third of the minimum wage families are families where the only minimum wage earner is a teenager and the majority of these families are in the upper two income quintiles. There is another equally large group of families with two working adults where one is a minimum wage worker and the other is not. Income of these families are skewed toward the higher quintiles. This leaves a minority of the minimum wage families that are female headed or consist of a single worker and they have low incomes indeed.

Even though the welfare implications of minimum wage increases ought to emphasize unskilled adults, the literature emphasizes teenagers. This is because higher proportions of teenagers are directly affected and effects are therefore more easily observed. The 1982 Survey by Brown, Gilroy, and Kohen that grew out of the Congressionally mandated Minimum Wage Study Commission describes thirty studies linking teenage employment to minimum wages. The reviewers summarize the weight of the evidence as showing as a rough approximation a 10 percent increase in the minimum wage reduces teenage employment by somewhere between one and three percent.

More recently economists at Princeton and Harvard have challenged the earlier literature with case studies of fast food "restaurants" showing no reductions in employment following the 1990/1991 round of increases in the minimum wage (Card, Krueger, and Katz, and Card and Krueger). Although our new Labor Secretary appears to take these studies seriously it is unlikely that they will have a lasting impact on the opinions of most economies. The major weakness is that the studies do nothing to account for changes in product demand among the establishment considered. A colleague whose opinion I value highly put it as directly as possible; "I guess we would all be eating hamburgers if the minimum wage were high enough!" Regardless of the recent case studies, the larger literature may leave one with an impression that the employment effects of minimum wages are unimportant. That would be unfortunate because a small percentage of a large number is not necessarily important.

The recent two-step increase in the federal minimum brought it from $3.35 to $3.80 on April 1, 1990 and then to $4.25 on April 1, 1991. Between March '90 to April '91 the minimum increased 27%. If we examine employment changes from the 12 months preceding the first of the two steps to the 12 months following the second increase in the federal minimum wage we find that: employment of teenagers fell relative to adults, employment of high school dropouts fell relative to employment of those with more education, employment of blacks fell relative to whites, employment of persons of Mexican descent fell relative to others and employment of those who are not married fell relative to those who are married. In short, employment fell most where wages are lowest.

Notice that the 1990-91 recession followed the increases in the federal minimum wage. This is nothing new. It seems that employment growth usually slows when the minimum is increased and when growth is not robust, recessions typically follow. Even so, you may ask whether the reductions in employment among the low wage populations that followed the most recent minimum wage increase result from the increase in the minimum *per se* or from the recession.

In a paper that will be published in the annual proceedings issue of the American Economic Review, my colleagues, Donald Deere of Texas A&M University and Kevin Murphy of the University of Chicago and I address this issue. Judged against the increases in the relative employment of low wage labor that accompanied the mid-1980s expansion, we find independently of the recession, that the increased federal minimum led to approximately a 10 percent reduction in the proportion of teenagers who are employed. Effects for prime aged blacks and high school dropouts are significant but not as pronounced.

I will be happy to entertain questions.

Labor Market Consequences of a Minimum Wage Increase: Comments Prepared for the Congress of the Unites States Joint Economic Committee

Lowell Taylor[1]

The traditional policy analysis of a minimum wage relies on a simple application of the "law of demand"—when the price of something increases people buy less of it. Thus an increase in the wage employers must pay workers induces employers to hire fewer workers. Although a minimum wage hike does lead to higher wages for those unskilled workers who retain their jobs, it also restricts employment opportunities of unskilled workers.

The main question I wish to address in these comments concerns the general validity of the standard analysis. The law of demand, after all, is not an immutable truth. It is rather an empirical generalization that conforms with reality in a great many circumstances. Does this law apply to low-wage labor markets?

The evidence that I present on this issue comes from an analysis of California's most recent minimum wage increase. In July of 1988 Californians saw an increase in the minimum wage from $3.35 to $4.25. The immediate consequence of this increase was to raise average wages in low-wage industries. If the textbook analysis applies, we would also expect employment growth to be tempered in these same industries.

An obvious place to examine this proposition is in the retail trade sector. Prior to 1988, over 30 percent of workers in retail trade earned between $3.35 and $4.25. It is therefore not surprising that with the minimum wage change, the annual growth in pay per employee in California's retail trade sector jumped to over six percent, as compared with less than four percent in the rest of the United States. There was, however, wide variation in pay increases across industries within the broadly defined retail trade sector. For instance, in department stores and women's clothing stores wages grew much more rapidly between 1988 and 1989 in California than in the rest of the United States. In contrast, pay per employee did not escalate as rapidly in California's higher paying automotive and furniture retail outlets.

Conventional wisdom suggests that we should observe slow employment growth in industries with the larger wage increases. Data from the U.S. Department of Commerce, summarized in the table on p. 4, seem to indicate precisely such a pattern. In particular, in those industries where the wage grew most rapidly, employment growth lagged most severely in California.

Further evidence about the effect of the minimum wage increase comes from an examination of differing impacts across California's counties. Prior to the 1988 minimum wage increase there was substantial variation in California's counties in wages workers earned in retail trade. In some lower-wage counties a substantial proportion of retail trade workers earned minimum wages, while in more prosperous counties very few workers earned the minimum wage.

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Consider San Francisco County and Sutter County for instance. Sales tax records from the California State Board of Equalization indicate that these counties had nearly identical trends in overall taxable sales from 1988 to 1989.[2] We thus would expect that in the absence of a minimum wage increase both counties would have enjoyed similar growth in retail trade employment. San Francisco County, however, was a high wage county, with the highest average wage in retail trade of any county in California. Here the average wage grew by only 1.7% in 1988–1989, suggesting that the minimum wage increase had little "bite." County retail trade employment grew rapidly, by 8.0%. In contrast, Sutter County, an initially lower wage county, experienced a 9.2% increase in average retail trade wages and a change in retail trade employment of -2.1%.

In a paper forthcoming in an academic journal published by the American Statistical Association, a Carnegie Mellon graduate student and I undertake an extended statistical analysis of the patterns described in the preceding paragraphs.[3] Our conclusion is that the data provide evidence that California's 1988 minimum wage increase generally tempered employment growth in low-wage retail trade industries. This effect was most pronounced in low-wage counties.

I would like to add two points.[4]

First, there is reason to be concerned that the negative relationship between wage growth and employment growth we observe in the data are due to errors in data collection by the U.S. Department of Commerce, and not due to the minimum wage increase. To check for this possibility we used these same County Business Patterns data for the years 1985–86, 1986–87, and 1987-88 to see if the negative relationship between wage growth and employment growth was found in these years. California's minimum wage did *not* change in any of these years. Thus our "statistical experiment" of looking for a negative relationship between employment growth and wage growth in low-wage industries should fail in these years, unless the negative correlation is due to systematic error in the data. Fortunately, the 1988-89 pattern does *not* appear at all in 1985–86, 1986–87 or 1987–88. This result gives greatly increased confidence in our paper's conclusion, but we still would like to have been able to work with higher quality data.

Second, my study is one of several recent studies looking at the minimum wage. If I were appearing before this Committee ten years ago I could present my findings on the minimum wage as more or less representative of the consensus view of my profession. On the basis of my analysis of the California case, I would predict that the federal minimum wage increase being discussed at this hearing will cause a rather substantial reduction in job growth in low-wage industries and low-wage regions of the country. However, recent case studies of the fast food industry indicate that a minimum wage increase need not always reduce short-term employment, and some additional work examining broader markets points to this same conclusion.

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[2] From the 12 months preceding the minimum wage increase to the subsequent 12 month period, Sutter County taxable sales increased by 7.2%, while San Francisco County taxable sales increased by 6.9%.

[3] Taeil Kim and Lowell Taylor, "The Employment Effect in Retail Trade of California's 1988 Minimum Wage Increase," Journal of Business and Economic Statistics (April 1995).

[4] On both of these observations, see David Card and Alan Krueger, "Myth and Measurement: The New Economics of the Minimum Wage," Princeton: Princeton University Press (1995).

Perhaps the best way to view recent research on the minimum wage is as an uncomfortable reminder that economists should approach with considerable humility the task of predicting the effect of even simple policies like minimum wages in a setting as complex and varied as the low-wage labor market in the United States. My work indicates that a hike in the minimum dampens employment growth for low-skill workers. Others may disagree with this conclusion. But the evidence from the California case is not easy to dismiss. The Joint Economic Committee should recognize that a minimum wage increase does hold considerable risk as a strategy for accomplishing the goal of redistributing income to low-wage workers. This risk follows from a simple and compelling argument found in nearly every introductory economics textbook:[5]

> Policymakers therefore face a tradeoff. Higher minimum wages increase the income of most low skill workers, but these gains come at the potential cost of fewer jobs for this same group of workers.

[5] William Baumol and Alan Blinder, "Economics: Principles and Policy," Fort Worth: Dryden Press (1994), p. 401.

Differences in Pay Growth and Employment Growth, California - U.S., 1988–89

	Pay per Employee	Employment
General Merchandise	6.86	-6.16
Eating and Drinking	4.63	-1.24
Food Stores	2.36	-0.37
Apparel and Accessory	2.31	1.19
Building and Garden Supplies	0.77	3.15
Furniture	0.00	3.87
Auto Dealer and Service Stations	-1.56	2.02

Column 1 gives the percent change in pay per person in California minus the percent change in pay per person in the rest of the U.S., while column 2 is the difference in the percent change in employment in California and the rest of the U.S. These categories represent all retail trade industries except "Miscellaneous Retail." These statistics are tabulated from the *County Business Patterns*, U.S. Department of Commerce.

Statement of William M. Rodgers III
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Department of Economics
The College of William and Mary
Before the Joint Economic Committee
February 22, 1996

Mr. Chairman and Distinguished Members of the Joint Economic Committee:

Thank you for the opportunity to appear before you and discuss the issue of raising the federal minimum wage. The minimum wage is a topic of active academic debate. The major argument against an increase is the belief that the a minimum wage increase generates huge job losses. The basis for this view comes from outdated research. Academic researchers have never predicted huge job losses for the adult population. The only job losses that are predicted are for teenagers. Yet, even for teenagers, reviewers of this literature conclude that a 10 percent increase in the minimum wage leads to a zero to 3 percentage point increase in the teenage unemployment rate, and Brown, Gilroy, and Kohen's review of the literature favors the bottom end of this range.

These estimates yield an increase in the income of low-wage workers. For example, suppose that each 10 percent increase in the minimum wage produced job losses of 1 percent for minimum wage workers. Using this estimate, a simple back of the envelope calculation shows that with a 90 cent increase in the minimum wage 98 percent of the 11 million workers between 4.25 and 5.15 get a raise, and only 2 percent had to look for new jobs. Given the high turnover rates in these jobs, spells of unemployment should be quite short. Furthermore, the net gain for the economy will be even greater if effort is tied to wages, because productivity will improve.

The majority of recent research on the effects of minimum wage increases shows that the estimated job losses are small or negligible. These studies appear in prestigious journals where results are scrutinized by economists prior to publication: three such publications are The American Economic Review, Journal of Human Resources, and Industrial Labor and Relations Review.

As a result, many distinguished economists are changing their views. In a recent New York Times article, Nobel Laureate Robert Solow stated that, "The main thing about this research is that the evidence of job loss is weak."

Elsewhere, distinguished labor economist, Richard Freeman stated, "Most studies, however, reject the notion that the late 1980's/early 1990's increases had adverse employment effects, and the studies that find adverse effects prior to those increases obtain small [employment effects]..."

Let me now talk briefly about who would benefit from the minimum wage increases. The debate has focused on teenagers. Again, this is based on outdated literature. If one looks at the current data for workers who say that they are paid an hourly wage, you find that (1) most minimum wage workers are adults over 20 years of age; among full-time workers who earn the minimum, over 80 percent are adults; and (2) more than one in five minimum wage workers lives in a family below the official poverty line.

Some have also argued that an increase in the minimum wage would have a differential impact on the employment of black teenagers. However, my recent analysis of the 1980 and 1981 minimum wage increases (which will be submitted for the record) that uses data from the National Longitudinal Survey of Youth strongly suggests that teenage employment was not adversely effected by the increases, and black unemployment was not adversely effected. The employment rate of teenagers who were affected by the minimum wage is the same as the employment rate of teenagers who were employed in industries that were exempt from the minimum wage increase, and the unemployment of black teenagers did not increase. After the 1980 increase, it actually went down.

Finally, let me talk about wage differences across racial groups. During the 1980's, the relative earnings of new entrant black workers fell. The relative earnings of blacks in the most recent cohort that entered the labor market also fell. Some of my earlier work finds that the decline in the real value of the minimum wage plays a key role in explaining this erosion in earnings among less-skilled high school dropouts and high school graduates. These results are consistent with the findings of Professors John Bound and Richard Freeman. The puzzle is that the 1980's was a period in which racial differences in educational attainment and other ability measures continued to narrow.

In summary, I think that current research on the minimum wage provides an excellent foundation on which to base a modest increase in the minimum wage. Finally, I find it ironic that one of the opposition's major arguments against increasing the minimum wage is that it would have a differential impact on the employment of teenage black males. To the people who have this concern, I applaud you for your caring in this complex issue; however, you are focusing on the wrong set of statistics.

During my adult life, the labor force participation for African American teenagers has remained under 40 percent. Allowing the real value of the minimum wage to fall, while transportation and clothing prices increase, will not help encourage labor force participation by these teenagers. Further, the decline will lead to greater wage erosion among black high school graduates and dropouts.

So, while there are many policies that need to be pursued to lower black unemployment rates and raise their relative wages, making African American teenagers even cheaper to employ is not likely to help.

The Minimum Wage and Racial Differences in Teenage Unemployment

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February 21, 1995

Prepared for the Joint Economic Committee's Hearing on increasing the Federal Minimum Wage. I thank Gene Luciani and Katherine Armentrout for their assistance in the preparation of this report.

I. Introduction

The recent proposal to raise the minimum wage has met opposition. Opponents argue against the proposal for the following reasons. First, a 10 percent increase in the minimum wage is associated with a 1 to 2 percent decline in unemployment.[1] Second, minimum wage workers tend to be young males and females who end up going on to college, or middle class females who are working to supplement their family income. In other words, they are at the minimum wage for a very short period of time, or have weak ties to the labor market. Third, minimum wage workers, especially teenagers are upwardly mobile. Most will move to permanent high wage jobs. However, recent research on the effects of the minimum wage tends to find that this characterization of minimum wage workers is wrong.[2]

Another argument used by opponents of an increase in the minimum wage is that the increase would have a differential impact on the employment of black teenagers. Deere, Murphy, and Welch (1995) are the most recent to conclude that the employment rates of black teenagers are more sensitive to increases in the minimum wage.[3] These results are contrary to more recent studies that find that state and federal increases in the minimum wage had no negative employment effects on samples of New Jersey and Texas fast-food restaurants, California

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[1] Brown (1988) provides an excellent survey of the earlier literature.

[2] See, for example, Card and Krueger (1995), Spriggs and Klein (1994).

[3] See, for example, Card (1992) and Wellington (1991)

teenagers, national samples of low wage workers, and workers in retail trade and restaurant industries.[4] Furthermore, these results are contrary to the findings of earlier literature. After reviewing the literature, Brown (1988) concludes that, "the effect is worse for blacks but not dramatically so."

Why do Deere, Murphy, and Welch (1995) obtain results that are even actually much larger than estimates from the older literature on this issue? Their study, which uses state-level aggregates, fails to compare the experiences of teenagers who had earnings between the old and new minimum wage to teenagers who had earnings below the old minimum wage. Their study also fails to fully account for the downturn in the U.S. economy from 1989 to 1991. They use the employment population ratio of adult males as their proxy for business cycle conditions. Typically, researchers use the logarithm of GNP or GNP growth to measure business cycle conditions. Thus, given the long line of literature on the greater sensitivity of black unemployment to business cycle conditions, it is not a surprise that the employment rate of blacks falls.[5]

This paper utilizes micro data from the National Longitudinal Survey of Youth (NLSY) for the years 1979 to 1982 to provide a better test of the effects of the

[4] These are the Card (1992), Card and Krueger (1994), Katz and Krueger (1992) studies. Also see, Freeman (1994), Klerman (1992), Lang (1994), Siskind (1977), Spriggs (1994), and Wessels (1994).

[5] For discussion of the relationship between black labor market opportunities and the macroeconomy see Blank (1989), Reich (1981), Smith and Welch (1979), Butler and Heckman (1977), Freeman (1973), Thurow (1969), Gallaway (1971), Rasmussen (1970), Ashenfelter (1970), and Clark and Summers (1981).

earlier minimum wage increases. The 1980 and 1981 increases are similar in that they occurred at similar points in the business cycle. Another advantage of this study over the Deere, Murphy, and Welch (1995) study is that the NLSY data allows me to observe the same teenagers before and after the increases. This allows me to take into account any composition effects that may exist. The methodology used in this paper is quite similar to that used in Currie and Fallick (1994) and Card and Krueger (1995). I compare the post-increase employment rates of teenagers who were earning wages above the old minimum but below the new minimum to the employment rates of teenagers who were below the old minimum prior to the increase. I use the latter as my control group.

The results suggest that the minimum wage increases in 1980 and 1981 did not have any negative impacts on the employment rates of teenagers. The employment rates of teenagers whose wages were between the old and new minimum were actually higher than the employment rates of teenagers whose wages were below the old minimum. This provides clear evidence that the increases in the minimum wages of 1980 and 1981 did not have any dislocation effects among teenagers. I also find that black teenager unemployment rates do not rise after the minimum wage increase.

This study also presents evidence of the link between racial inequality and the minimum wage. I show that the decline in the real value of the minimum wage plays a key role in explaining the erosion in the black-white wage gap among high school dropouts and high school graduates.

II. Teenage Employment and the Minimum Wage

This section presents evidence that challenges recent comments that teenagers would bear the brunt of an increase in the minimum wage through greater job loss. To do this, I utilize micro data from the National Longitudinal Survey of Youth (NLSY). Since 1979, the NLSY has been following a sample of youth who were 14 to 22 years of age at the initial interview. The data is ideal for estimating the effects of the minimum wage increases on January 1, 1980 from $2.90 to $3.10 an hour, and $3.10 to $3.35 on January 1, 1981. I compare the employment rates of teenagers who prior to the minimum wage increases of 1980 and 1981 were either earning between $2.90 to $3.10 an hour, or $3.10 to $3.35 an hour. The samples consist of teenagers who were 16 to 19 years of age in 1979, or 16 to 19 years of age in 1980, and were employed.

Table 1 presents the results from the analysis. The entries in the first row represent the regression adjusted percentage point difference in employment rates between teenagers whose wages were between the old minimum and the new minimum wage, and teenagers whose wages were less than the old minimum wage. I estimate a probit equation where the dependent variable equals 1 if the respondent was employed after the minimum wage increase, and 0 if the respondent was unemployed. The explanatory variables are dummy variables for educational attainment, region of residence, age, metropolitan residence, a measurement error corrected AFQT score, and the teenager's local labor market unemployment rate.[6] To measure the difference in post-increase employment rates, I add a dummy variable that equals 1 if the teenager's wages in the previous year were above the old minimum, but below the new minimum, and 0 if the teenager's wages were below the old minimum. The differences in probabilities are evaluated at the sample means of the independent variables.

The Table indicates that the employment rates of teenagers who had wages in between the old minimum and new minimum are significantly higher than the employment rates of teenagers whose earnings were below the old minimum. These effected workers have employment rates that are 4.9 percentage points higher, and this advantage remains even after adding a broad set of human capital variables. Thus, these results cast doubt on the findings of Deere, Murphy, and Welch (1995).

III. Race and the Minimum Wage

This section presents the results from an empirical analysis of changes in black unemployment from increases in the minimum wage. As stated earlier, Deere, Murphy, and Welch claim that the 1989 and 1990 increases in the minimum wage had differential effects on teenage black employment. The evidence directly challenges their results and recent comments that black

[6] Rodgers and Spriggs (1994) demonstrate that a measurement error corrected AFQT score where the instruments are family background and school quality characteristics performs better than the age and education adjusted score that researchers such as Neal and Johnson (1994), Ferguson (1994), and O'Neill (1990) use.

teenagers would bear the brunt of an increase in the minimum wage through greater job loss.[7]

I estimate the change in the unemployment rate of 16 to 19 year old black teenagers who prior to the minimum wage were either unemployed or employed at or below the new minimum wage. Table 2 presents the results. The first two entries represent the regression adjusted change in black unemployment from the 1980 and 1981 increases. The third entry measures the change in black unemployment when the two data sets are pooled. The estimates come from a probit equation where the dependent variable equals 1 if the respondent was unemployed, and 0 if the respondent was employed. I include the following human capital and socioeconomic variables: educational attainment, region of residence, age, metropolitan residence, a measurement error corrected AFQT score, and the teenager's local labor market unemployment rate. To measure the change in teenage black unemployment from each minimum wage increase, I add an interaction between the black dummy variable and a dummy variable that equals 1 if the observation comes from the post-increase data set, and 0 if the observation comes from the pre-increase data set. The changes are evaluated at the sample means of the independent variables.

The Table illustrates that the unemployment rates of black teenagers are not adversely affected by either minimum wage increase. After the 1980 increase,

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[7] See, Todd S. Purdum, "Clinton Asks Rise in Minimum Wage," *The New York Times*, Section A, pp. 1 and 8 (February, 4, 1995).

black unemployment falls, and this result is statistically significant. After the 1981 increase, black unemployment rises slightly; however, the estimate is not statistically significant. Finally, when we pool the two data sets, teenage black unemployment declines. This estimate is not statistically significant. Combined, these results indicate that unemployment rates of teenage blacks who were either unemployed or were employed at or below the new minimum wage were not adversely affected by the increases.

IV. Black-White Wage Gaps and the Decline in the Real Minimum Wage

A wealth of information regarding the impact of the decline in the real minimum wage surfaced during the late 1980's. DiNardo, Fortin, and Lemieux (1994) find that during the 1980's, 20 to 30 percent of the rise in general wage inequality can be explained by the precipitous decline in the real value of the minimum wage. Card and Krueger (1994) find that the 1990 and 1991 increases in the federal minimum wage eliminated the amount of the widening. To my knowledge, Bound and Freeman (1992) and Rodgers (1994) are the only studies that demonstrate the differential impacts of the decline in the real value of the minimum wage on the black-white wage gap. Bound and Freeman (1992) find that the decline in the real value of the minimum wage explains a significant portion of the decline in the relative wages of black high school graduates, and all of the decline in the relative wages of black high school dropouts.

Rodgers (1994) takes a different approach in describing the distributional effects of the real minimum wage's decline. His study estimates the growth in black-white wage gaps at various segments of the earnings distribution, and then decomposes the growth at each segment into the portion due to blacks falling in the white distribution, and the portion due to a rise in the dispersion of wages regardless of race. The first component quantifies the role that racial differences in "ability" and labor market discrimination play in explaining the relative decline in black earnings. The second component measures the impact that a decline in the real value of the minimum wage has on the relative wages of black workers.

The data used come from thirteen consecutive Outgoing Rotation Group Current Population Surveys (CPS) from 1979 to 1991. The sample consists of black and white males with 0 to 10 years of potential experience[1], who fit the following criteria, (1) at least 18 years of age, (2) Major Activity Last Week was either working or on layoff, (3) employed in either the public or private sector (excludes the self-employed), and (4) usual hours worked per week were greater than or equal to 1, or less than or equal to 99.

As illustrated in Figure 1, the predicted change in the black-white wage gap between 1979 and 1985 equals the difference between the predicted 1985 median gap and the actual 1979 median gap. The 1985 gap is the black disadvantage if they had maintained their position in the white wage distribution. The predicted change in the gap is compared to the actual change in the black-white median gap. For ease of interpretation, a ratio of the predicted and actual changes is constructed. A ratio of 1 indicates that growth in dispersion of wages explains all of the black-white wage gap's expansion, and a ratio of 0 indicates that the growth in dispersion explains none of the wage gap's expansion.

To provide a broader description of rising inequality's contribution at various segments of the distribution, I conduct the procedure for each quintile of the wage distribution. The procedure for the lowest quintile (5th to 20th percentiles) is as follows. I locate the positions of the 5th to 20th percentile blacks in the 1979 white wage distribution, and then find the 1985 white wage which correspond to these percentiles. The mean of these wage is the 1985 average predicted wage for blacks at the lowest quintile, assuming that their 1979 positions in the white distribution are preserved. I then compute the 1979 and 1985 averages of the white 5th to 20th percentile wages. The ratio is the difference between the predicted 1985 mean gap and the actual 1979 mean gap divided by the change in the actual 1985 and 1979 mean black-white wage gaps. Again, a ratio of 1 indicates that growth in dispersion of wages explains all of the black-white wage gap's expansion, and a ratio of 0 indicates that the growth in dispersion explains none of the wage gap's expansion.

Wage inequality growth's ability to explain the expansion in the black-white gap is greatest at the lower tail of the high school graduate and dropout wage distributions. Table 3 indicates that rising within group wage inequality among high school dropouts and graduates explains a portion of the widening in each group's black-white wage gap. The ratios indicate that wage inequality's contribution is largest at the lower tail of the distribution. More specifically, high school dropout ratios start at 22 percent at the first quintile, fall to 11 percent at the second quintile, and to zero at all other quintiles. The high school graduate ratios exhibit a pattern similar to the high school dropout ratios, but do not fall to zero until the upper most quintile.

V. Summary

This paper utilizes micro data from the National Longitudinal Survey of Youth (NLSY) for the years 1979 to 1982 to provide a better test of the effects of the earlier minimum wage increases. The 1980 and 1981 increases are similar in that they occurred at similar points in the business cycle. Another advantage of this study over the Deere, Murphy, and Welch (1995) study is that the NLSY data allows me to observe the same teenagers before and after the increases. This allows me to take into account any compositional effects that may exist. I compare the post-increase employment rates of teenagers who were earning wages above the old minimum but below the new minimum to the employment rates of teenagers who were below the old minimum prior to the increase. I use the latter as my control group.

The results suggest that the minimum wage increases in 1980 and 1981 did not have any negative impacts on the employment rates of teenagers. The employment rates of teenagers whose wages were between the old and new minimum were actually higher than the employment rates of teenagers whose wages were below the old minimum. This provides clear evidence that the increases in the minimum wages of 1980 and 1981 did not have any dislocation effects among teenagers. I also find that black teenager unemployment rates do not rise after the minimum wage increase.

In summary, I think that current research on the minimum wage provides an excellent foundation on which to base a modest increase in the minimum wage. Finally, I find it ironic that one of the opposition's major arguments against increasing the minimum wage is that it would have a differential impact on the employment of teenage black males. To the people who have this concern, I applaud you for your caring in this complex issue; however, you are focusing on the wrong set of statistics.

Since the 1960's, the labor force participation for African American teenagers has remained under 40 percent. Allowing the real value of the minimum wage to fall, while transportation and clothing prices increase, will not help to encourage labor force participation by these teenagers. Further, the decline will lead to greater wage erosion among black high school graduates and dropouts.

So, while there are many policies that need to be pursued to lower black unemployment rates and raise their relative wages, making African American teenagers even cheaper to employ is not likely to help.

Table 1: Determinants of Post-Increase Employment Rates

	Unadjusted	Race/Ethnicity and Gender	Sociodemographic
Wage Between Old Minimum and New Minimum = 1	.0486*	.0466*	.0446*
	(.0211)	(.0243)	(.0246)

Notes: Author's calculations from the National Longitudinal Survey of Youth. An asterisk denotes statistical significance at the 10 percent level. The differences in probabilities are from probit equations, and have been evaluated at the sample mean characteristics of the predictor variables. White male teenagers whose wages were below the old minimum wage are the omitted group. The sociodemographic variables included in the third column are age, educational attainment, region of residence, metropolitan residence, and a measurement error corrected AFQT score.

Table 2: Change in Black Unemployment from the 1980 and 1981 Increases

Variable	Change in Black Unemployment from 1980 Increase	Change in Black Unemployment from 1981 Increase	Pooled
Black*Post Increase Dummy	-.052	.032	-.017
	(.035)	(.036)	(.025)

Notes: Author's calculations from the National Longitudinal Survey of Youth.

Table 3: Wage Dispersion Results: 1979-1985
(IN PERCENT)

Panel A: High School Dropouts

Percentiles	Actual Black-White Gap_{79}	Actual Black-White Gap_{85}	Predicted Gap_{85}	Predicted Change in Gap	Actual Change in Gap	Ratio
5-20	-30.4	-39.3	-32.4	-2.00	-8.95	0.223
21-40	-19.7	-26.8	-20.5	-.80	-7.04	0.112
41-60	-25.9	-29.9	-25.7	.20	-3.99	-0.054
61-80	-23.4	-32.6	-23.4	.01	-9.17	-0.001
81-95	-21.5	-31.5	-20.2	1.3	-9.98	-0.127
Mean	-24.1	-31.7	-24.3	-.27	-7.66	0.035

Panel B: High School Graduates

Percentiles	Actual Black-White Gap_{79}	Actual Black-White Gap_{85}	Predicted Black-White Gap_{85}	Predicted Change in Gap	Actual Change in Gap	Ratio
5-20	-12.9	-21.2	-15.6	-3.05	-8.28	0.369
21-40	-18.0	-26.0	-18.8	-.75	-8.02	0.093
41-60	-18.5	-26.7	-19.6	-1.17	-8.20	0.143
61-80	-17.2	-25.1	-18.0	-.79	-7.89	0.099
81-95	-13.8	-21.3	-13.3	.54	-7.46	-0.072
Mean	-16.3	-24.3	-17.4	-1.04	-8.00	0.131

Notes: Calculated from the CPS Annual Demographic Merged Files for 1979, 1980, 1981, 1982, 1983, 1984, and 1985. The sample consists of black and white males who fit the following criteria: (1) Potential experience between 0 and 10 years, (2) Age at least 18, and (3) Major Activity Last Week was working or on layoff.

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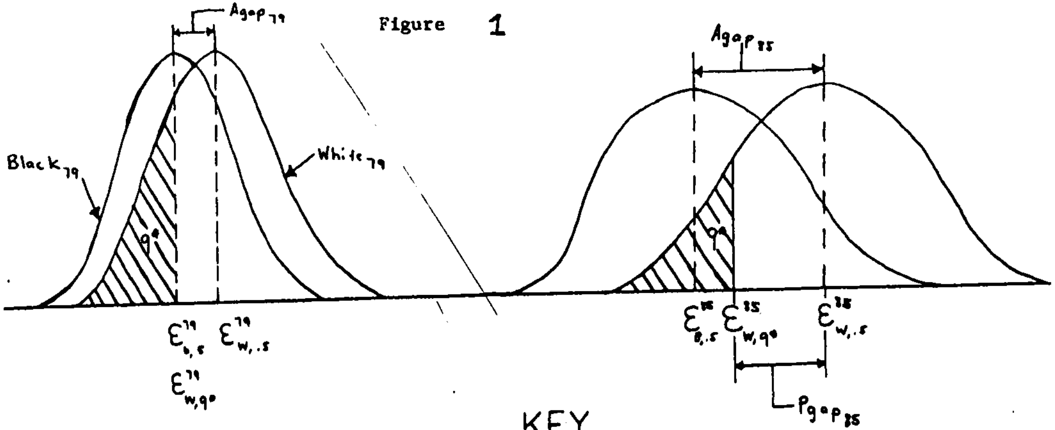
Table A1: Probit Coefficients for Table 1

	Unadjusted		Race/Ethnicity and Gender		Sociodemographic	
Variable	Coef.	SE	Coef.	SE	Coef.	SE
Wage Between Old Minimum and New Minimum = 1	0.1385	0.0600	0.1329	0.0696	0.1236	0.0703
Year 1981 = 1			-0.0175	0.0673	0.0066	0.0735
High School Graduates					0.1536	0.0713
Some College					0.2068	0.1109
Age					-0.0006	0.0338
$AFQT_{iv}$					-0.0005	0.0017
Not in SMSA					0.0270	0.0790
Central City Unknown					0.0576	0.0799
Central City					0.0691	0.0863
Urate: 3.0-8.9%					0.2171	0.1075
Urate: 6.0-8.9%					0.1539	0.1162
Urate: 9.0-11.9%					0.0449	0.1453
Urate: >= 12.0%					-0.0488	0.1690
Midwest					0.1287	0.0895
South					-0.1009	0.0863
West					0.0302	0.1020
Female			-0.1219	0.0563	-0.1544	0.0576
Hispanic			-0.0950	0.0815	-0.0551	0.0918
Black			-0.2806	0.0698	-0.2498	0.0761
Constant	0.4369	0.0335	0.5845	0.0621	0.3314	0.6139
N	2213		2213		2213	
Ln Likelihood	-1376.8		-1367.0		-1354.5	

Table A2: Probit Coefficients for Table 2

Variable	Estimates for 1980 Increase Coef.	SE	Estimates for 1981 Increase Coef.	SE	Pooled Coef.	SE
Urate: 3.0-5.9%	0.2187	0.2723	0.1745	0.0854	0.1161	0.0764
Urate: 6.0-8.9%	0.3912	0.2739	0.2906	0.0914	0.2314	0.0773
Urate: 9.0-11.9%	0.5271	0.2834	0.4206	0.1084	0.3700	0.0894
Urate: > = 12.0%	0.3382	0.2958	0.2781	0.1345	0.2054	0.1055
Midwest	-0.0830	0.0686	-0.1094	0.0667	-0.1008	0.0475
South	0.0645	0.0665	-0.0815	0.0619	-0.0239	0.0449
West	0.0496	0.0774	-0.1162	0.0734	-0.0442	0.0529
High School Graduate	-0.3276	0.0636	-0.3429	0.0588	-0.3345	0.0430
Some College	-0.3459	0.1115	-0.5956	0.1126	-0.4708	0.0789
Not in SMSA	-0.0563	0.0636	-0.1353	0.0629	-0.1042	0.0442
Central City Unknown	0.1082	0.0665	-0.0372	0.0651	0.0235	0.0447
Central City	0.1238	0.0682	0.0314	0.0664	0.0725	0.0463
Age	-0.0351	0.0260	-0.0135	0.0242	-0.0229	0.0177
$AFQT_w$	-0.0083	0.0014	-0.0065	0.0013	-0.0073	0.0010
Post-Increase	-0.3403	0.0668	-0.2174	0.0664	-0.2625	0.0447
Male	0.0518	0.0458	0.1284	0.0439	0.0959	0.0316
Hispanic	-0.0027	0.0941	0.1394	0.0885	0.0779	0.0636
Post*Hispanic	0.0331	0.1316	-0.0947	0.1248	-0.0551	0.0891
Black	0.5810	0.0755	0.3966	0.0711	0.4934	0.0510
Post*Black	-0.1568	0.1067	0.0910	0.1014	-0.0496	0.0717
Constant	-0.1619	0.5204	-0.3055	0.4312	-0.1557	0.3149
N	3662		3910		7572	
Ln Likelihood	-2070.07		-2277.5		-4363.38	

Figure 1



KEY

$\varepsilon^{79}_{b,.5}$: 1979 Median Black Residual
$\varepsilon^{79}_{w,.5}$: 1979 Median White Residual

ε^{79}_{w,q^*}: 1979 White Residual at q^*, the location of the median black residual.

$Agap_{79}$: $\varepsilon^{79}_{b,.5} - \varepsilon^{79}_{w,.5}$

$\varepsilon^{85}_{b,.5}$: 1985 Median Black Residual
$\varepsilon^{85}_{w,.5}$: 1985 Median White Residual

ε^{85}_{w,q^*}: 1985 White Residual at quantile q^*, or the Predicted 1985 Black Residual.

$Agap_{85}$: $\varepsilon^{85}_{b,.5} - \varepsilon^{85}_{w,.5}$
$Pgap_{85}$: $\varepsilon^{85}_{w,q^*} - \varepsilon^{85}_{w,.5}$

Question: How much of the actual gap's rise is explained by growing wage inequality?

Answer: $\dfrac{\text{Predicted Change in Gap}}{\text{Actual Change in Gap}} = \dfrac{Pgap_{85} - Agap_{79}}{Agap_{85} - Agap_{79}}$

Statement of Robert B. Reich
Secretary of Labor
Before the Joint Economic Committee
February 22, 1995

Mr. Chairman and Distinguished Members of the Joint Economic Committee:

We do not all agree on the subject of our discussion today -- the fate of the minimum wage. But let me begin with some ideas on which we do concur. Work is better than welfare. Work enobles and gives meaning. Any American who works hard and plays by the rules ought to have a fair chance to get ahead.

The current minimum wage betrays those ideals. It's not a liveable wage. A person who works 40 hours per week, 50 weeks per year at this wage earns only $8500 for an entire year's work. That's just not enough to support a family. And to suggest it's *good enough* mocks the values we claim to hold dear.

Today, the real value of the minimum wage is 27 percent lower than it was in 1979. Since its last increase four years ago, the value of the minimum wage has fallen 45 cents per hour. If it's not boosted this year, it will be worth less than at any time in 40 years.

President Clinton's proposal to increase the minimum wage 90 cents an hour over two years can help lift the lives of the eleven million Americans who currently earn less than $5.15 an hour.

These are the invisible workers of America -- working harder than they've ever worked before and barely making it. Hoping they or their kids stay healthy, because they can't afford to see a doctor. Hoping the rent doesn't go up again, because they can't afford another place to live. Hoping that interest rates don't rise again, because they're already behind on their car payments and their credit card payments, and they can't sink deeper into debt.

These Americans do work that's often hard on muscles and joints, the work that few relish but that needs to be done -- janitors, maids, child-care workers, cashiers, busboys, fast-food cooks, assemblers, gas-station attendants. These are the people who vacuum the boardrooms, file the papers, sew the clothing, and answer the phones. They don't need a capital gains tax cut, because they have no capital. They simply work hard -- very, very hard -- and play by the rules.

$4.25 an hour is not enough income to pay the bills. And it makes responsible people feel like suckers -- and thus gnaws away at the precious ethic of responsibility. The timing couldn't be worse. At the same time inflation has stolen much of the value of the minimum wage, the condition of America's working poor has declined. The Bureau of Labor Statistics estimates that the real average hourly wage of male high school graduates fell by 19 percent since 1979, and by 3 percent for female high school graduates. High school drop outs have fared even worse. This trend of declining real wages for less-skilled Americans has continued for 15 years.

Most disturbing, less-skilled workers have done poorly in times of economic growth as well as in times of economic downturns. The U.S. economy created more jobs in 1994 than in any other year in the past decade, and the unemployment rate fell to a four year low while the help wanted index climbed to a four year high. Yet the prosperity of this recovery, and of the past 15 years, has not been shared by all our citizens.

The reasons for the worsening fortunes of less skilled workers are many and diverse. Part of the explanation lies in increased globalization; part lies in technological change that has reduced the demand for less skilled workers; part lies in the decline in union membership as a proportion of the workforce. And several economic studies tell us that 20 to 30 percent of the erosion in wages of less-skilled workers is due to the fact that the minimum wage has not come close to keeping up with inflation, (See Blackburn, Bloom and Freeman (1991) and DiNardo, Fortin, and

Lemieux (1994). The studies I cite here will be submitted for the record.)

A moderate increase in the minimum wage is one of the few steps that government can take to improve the living standards of low-income workers in the short run. I use the word "moderate" advisedly. It would be reckless and counterproductive to try to reverse the entire erosion of earnings through minimum wage increases alone. An excessive increase in the minimum wage would indeed invite unwelcome economic results. Is there a minimum wage level that is too high? Yes. Is there a minimum wage level that is too low? Absolutely. And we are there right now. To make work pay, the President has proposed to raise the minimum wage from $4.25 to $4.70 on July 4, 1995, and to $5.15 after July 3, 1996. In 1989, the Congress passed by large bipartisan majorities, and President Bush signed, legislation to increase the minimum wage by an identical amount, 90 cents, in two 45-cent steps.

An objective look at the evidence suggests that such a modest increase in the minimum wage would not have the dire consequences that its opponents argue it would have. Furthermore, with the changes in the wage structure the U.S. economy has experienced, an increase in the minimum wage would help relatively more low income families today than was the case

20 years ago. Economic theory has much to teach us here and, as I noted, warns against excessive increases. But in assessing an increase of the scale the President proposes, we must go beyond the abstract theory of Economics 101, and examine the evidence.

That evidence allows us to dismiss, for example, the myth that the typical minimum wage worker is a middle-class high school student. Only one in 14 workers earning between $4.25 and $5.15 per hour is a teenaged student from a family with above-average earnings. Fully 46 percent of workers who would be affected by the President's proposal are in the bottom earnings quintile of working families. The average worker who would be affected by the President's proposal brings home half of his or her family's earnings; 38 percent of those affected are the <u>sole worker</u> in their family. An increase in the minimum wage of 90 cents would mean a $1,800 raise for a full-time, year-round minimum-wage worker. This is not an insignificant sum for low-income families struggling to make ends meet on the minimum wage. Indeed, it is as much as the average family spends on groceries in seven months.

The standard criticism of the minimum wage is that it raises employer costs and reduces employment opportunities for teenagers and disadvantaged workers. Of course, if we were talking about a

$10 per hour minimum wage, I believe this argument would have merit. At the same time, it is not credible that a one-cent increase in the minimum wage, for example, would cause meaningful job loss. Again: To assess the impact of an increase, we must be guided by evidence as well as theory. The weight of the evidence suggests that moderate increases in the minimum wage of the magnitude President Clinton has proposed would not have significant impact on overall employment. Many of the vested interests that stand to gain from keeping the minimum wage low have funded studies, published their viewpoints and primed the press on the myth that a moderate increase in the minimum wage of the sort the President has proposed would costs hundreds of thousands of jobs. To clarify an important but muddied debate, I ask your indulgence as I review briefly the state of empirical work on this subject.

The most common research method used by economists to study the impact of the minimum wage on employment is based on time series evidence. Time-series models attempt to relate changes in the minimum wage over time with contemporary, or subsequent, changes in employment. A strong enough connection between the timing of minimum wage increases and job losses would support a causal link. Such time-series models that were developed in the 1970s and early 1980s tended to find that a 10 percent increase in the minimum wage leads to a 1 to 3 percent decline in teen employment, with most estimates near the bottom of the range. This is a range that is reported by the Minimum Wage Study Commission, which was appointed under President Carter. However, when these same studies are updated to include data covering the 1980s, the results show a much smaller and statistically insignificant effect of the minimum wage on employment. In other words, in the time-series literature one can no longer rule out that the apparent relationship between the minimum wage and employment occurs by chance. A 1988 study by Allison Wellington of Davidson College that was subsequently published in the Journal of Human Resources was among the first to find this result. This study was contested the last time the Congress considered raising the minimum wage, but the results have held up. For example, a study by Jacob Klerman of the Rand Institute published in 1992 (Health Benefits in the Workforce, GPO, 1992) reached a similar conclusion. These findings are significant because they appear to contradict most of the previous empirical literature on the minimum wage. One cannot simply count the number of studies; one must weigh the quality, content, and completeness of the evidence. One must also distinguish between impartial, peer-reviewed academic research and the many studies funded by vested interests to reach a predetermined conclusion. Of the articles published in peer-reviewed American economics journals over the past five years, a majority has found that moderate changes in the minimum wage have an insignificant effect on employment.

The current time-series evidence, then, is inconclusive on the proposition that the minimum wage adversely affects employment <u>at all</u>. Since this challenges what many theorists predict, many economists have sought other methods for researching this issue further.

One promising approach is to compare impacts across areas, instead of over <u>time</u>. In one of the most compelling such studies Professor David Card of Princeton University examined the effect of the 1990 and 1991 increases in the minimum wage on employment growth for teenagers in different states. The rise in the federal minimum wage had a varying effect on wages from one state to another. In some states, the rise in the federal minimum wage affected many teenagers; in other , relatively few. For example, in many Southern states over 50% of teenagers were paid between $3.35 and $3.80 prior to the increase in the minimum wage to $3.80, while fewer than 10% of teens were in this range in New England and California. If a 45-cent increase had a significant impact on employment, that impact should be more noticeable in the states with many people affected by the increase, and state-by-state comparisons should reveal such differences. Card finds no evidence of the 1990 minimum wage increase affecting teenage employment or school enrollment across states. Professor Card has followed this work up through 1992, and the data continue to show no relationship between the percent of workers affected by the minimum wage increase in a state and growth in teenage employment. It is important to note that his conclusions are essentially unchanged if he controls for changes in adult employment and other variables. (See Industrial Labor Relations Review, October 1992.)

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

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

In a widely cited study, David Card and Alan Krueger examine the impact of the 1992 increase in New Jersey's minimum wage (to $5.05 per hour) on employment in the fast food industry. (Both researchers are Professors at Princeton University; Alan Krueger is currently on leave from Princeton to serve as the Chief Economist at the Labor Department.) They perform two types of comparisons. First, they compare the change in employment in New Jersey fast food restaurants to that in eastern Pennsylvania (along the New Jersey border). Second, they look within New Jersey, comparing restaurants that initially paid $4.25 per hour to those that paid $5.00 per hour or more. Both comparisons show that employment did not decline at stores that were compelled to raise their wages in response to the minimum wage increase compared to those that were unaffected by the increase. This paper was published in the American Economic Review, the premier journal of the economics profession, in September 1994.

In short, over a dozen studies have found that a modest rise in the minimum wage has little, if any, effect on employment.

These studies have examined the effect of the minimum wage on states and regions of the United States, on selected industries, on several groups of workers, and in foreign countries. The prediction of no significant job loss resulting from a modest boost in the minimum wage from its low level is based on studies that are not narrow or selective or partisan, as some of the vested interests would have you think. And this research also affirms that a minimum wage increase would increase the overall earnings of low-wage workers as a group.

Why is the empirical reality more complex than Economics 101 theory would predict? It is sometimes said that economists are unimpressed to see that something works in practice; they wait to see if it works in theory. Faced with the evidence, many economists are trying to explain why minimum wages turn out not to have the effects an introductory textbook model predicts. Leading economic theorists have proposed models to explain why a modest increase in the minimum would not harm employment, and why it might even help employment in some cases.

For example, Professor Dale Mortensen of Northwestern has been a pioneer in so called "search models," which predict that employment costs will be partially offset by better recruiting, more loyal workers, and lower turnover. As the President said in his State of the Union Address, a rise in the minimum wage might help to encourage people who are out of the labor force -- many of them collecting welfare -- to take jobs. In your panel this morning you heard from Lowell Taylor, who recently coauthored a paper arguing that a rise in the minimum wage could lead to more -- not less -- employment because firms would not have to supervise their workers as much if they were better paid. Earlier economists, such as Richard Lester, former Chairman of the Economics Department at Princeton, argued in the 1940s that most employers could manage a moderate increase in the minimum wage without a loss in employment because they could negotiate lower prices from suppliers, recruit and retain workers better, increase worker productivity, and improve management methods. The idea that a slightly higher minimum wage may not adversely affect employment, and may in some cases lead to more employment, is not radical. It is not even new.

The mounting empirical evidence, and the emerging theoretical literature, have led many economists to reconsider their views on the employment effects of moderate increases in the minimum wage. For example, after surveying and analyzing the recent empirical literature, Harvard University labor economist Richard Freeman concluded, "At the level of the minimum wage in the late 1980s, moderate legislated increases did not reduce employment and were, if anything, associated with higher employment in some locales." (International Journal of Manpower, 1994.) Similarly, Professor Robert Solow of MIT, Nobel Prize Winner in Economics, recently stated "The main thing about (minimum wage) research is that the evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small."

In sum, the evidence suggests that the minimum wage increase that the President has proposed is safely below the range that would seriously deter employment. We have six decades of experience showing that the dire predictions propagated by vested interests do not come true when moderate minimum-wage increases are implemented.

The current situation -- with the real minimum wage heading for its lowest real level in 40 years and with more and more workers finding that full-time work doesn't pay -- is unacceptable. And a reasonable -- if partial and imperfect -- remedy is at hand. I ask you to lend your support to the President's proposal for a responsible increase in the minimum wage.

Making Work Pay
The Case for Raising the Minimum Wage

Fact Sheet

Americans know a raise in the minimum wage is one way to help make work pay. A higher minimum wage -- a floor to ensure workers that they're getting a fair deal for their efforts -- provides a foothold into the middle class for many hardworking Americans. And for those middle class Americans that already rely on the minimum wage, an increase is essential to their standard of living.

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

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

The Federal minimum wage is currently $4.25 per hour. Adjusted for inflation, the value of the minimum wage has fallen by nearly 50 cents since 1991, and is now 27% lower than it was in 1979 (1995 dollars).

Raising the minimum wage is one way to make work pay. A recent study concluded that the decline in the real value of the minimum wage since 1979 accounts for 20% of the rise in the wage inequality for men, and 30% for women (see DiNardo, Lemieux & Fortin). Further, 20% of those living on the minimum wage the last time it was raised in 1991 were in poverty, and an additional 13% were near poverty.

Many Adults Rely on the Minimum Wage as a Living Wage

Contrary to popular opinion, the average worker affected by an increase in the minimum wage is not just a teenager flipping hamburgers. The last time the US raised the minimum wage -- almost 4 years ago -- that worker brought home 51% of his or her family's weekly earnings. The fact is, two-thirds of minimum wage workers are adults.

In 1993, the president expanded the Earned Income Tax Credit (EITC), which raised income for 15 million households, helping many working families move above the poverty line. Yet to complete the goal of insuring that full-time working families are out of poverty, we need to raise the minimum wage. A worker in a full-time, year round job earning the minimum wage does not meet the Federal poverty level for a family of 3 (1 worker and 2 children), which the Congressional Budget Office (CBO) predicts in 1996 will be $12,557. For that year, a worker with 2 children earning $8,500 (the full-time year round wage at $4.25 an hour) would receive a tax credit of $3,400 under the 1996 provisions of the EITC -- but still, this tax credit will not be sufficient to raise the family's income above the poverty line. However, for a worker with 2 children earning $10,000 (the full-time year round wage at $5.00 an hour), the EITC would provide the maximum tax credit ($3,560) and increase their family income to $13,560 -- $1,000 above the projected poverty line in 1996.

According to the Bureau of Labor Statistics, 4.2 million workers paid by the hour earn at or below the minimum wage. An increase in this living wage is a strong response to the stagnant incomes that many of these workers face.

A Moderate Increase in the Minimum Wage Does Not Cost Jobs

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

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

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

Americans Want An Increase in the Minimum Wage

The American public supports increasing the minimum wage by a solid margin. A national poll conducted in January 1995 for the Los Angeles Times found that 72% of Americans backed an increase in the wage, confirming a December 1994 Wall Street Journal/NBC News survey that found raising the minimum wage is "favored by 75% and opposed by only 20%" of respondents. (Wall Street Journal, December 16, 1994)

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

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

The Minimum Wage
Myth and Reality

The federal minimum wage now stands at $4.25 per hour. A person who works full time all year long at that wage earns only $8500 in a year. The buying power of the minimum wage is already 27 percent lower than in 1979 -- and if left unchanged, will be at its lowest point in 40 years by 1996. To restore that buying power and to make work pay, the President has challenged Congress to raise the minimum wage.

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

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

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

Myth: Minimum wage workers don't support families.

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

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

Reality: Seven million working Americans would get a pay raise if the minimum wage is increased to $5.00 per hour. As Nobel Prize-winning economist Robert Solow said, "[T]he evidence of job loss is weak. And the fact that the evidence is weak suggests that the impact on jobs is small." (Source: *New York Times*, January 12, 1995)

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

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

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

Reality: A 75-cent per hour increase in the minimum wage means an additional $1,500 for a minimum wage earner who works full-time, year round -- as much as the average family spends on groceries in 6 months. (Source: Bureau of Labor Statistics)

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

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

Making Work Pay
Questions and Answers on Raising the Minimum Wage

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

The minimum wage is currently valued at 27% lower in real terms than it was in 1979.

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

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

Although some people who earn the minimum wage are teenagers, two-thirds are adults age 21 and older. The average minimum wage worker brings home about half of his or her family's earnings. Increasing the minimum wage will help these workers to make up for lost ground due to inflation -- it will help make work pay.

The minimum wage provides a foothold into the middle class. A family with two full-time year round workers would earn $20,000 a year with a $5.00 minimum wage.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

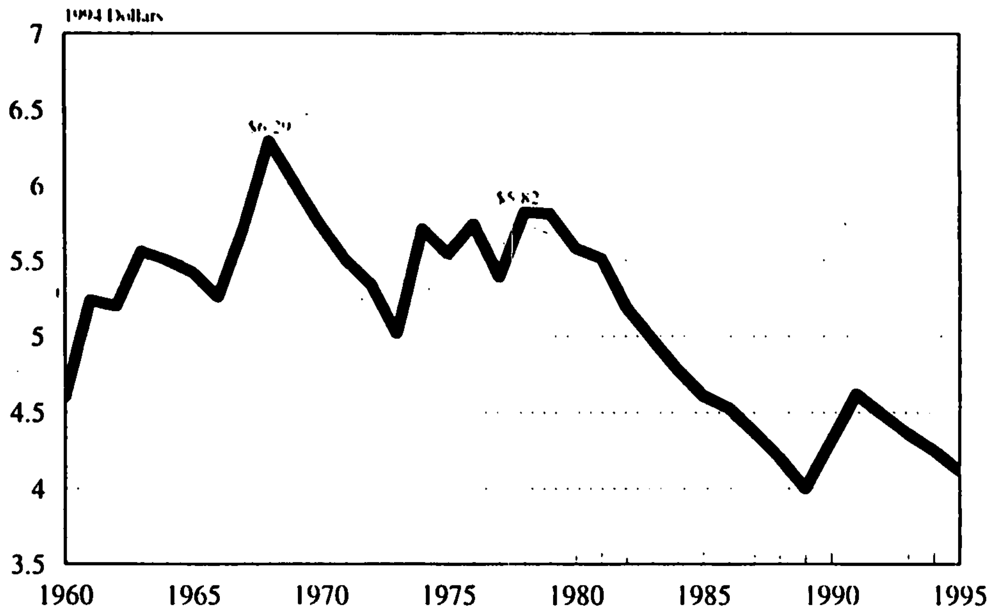
Year	Value of the Minimum Wage, Nominal Dollars	Value of the Minimum Wage, 1995 Dollars*	Minimum Wage as a Percent of the Average Private Nonsupervisory Wage
1955	$0.75	$3.94	43.9%
1956	1.00	5.16	55.6
1957	1.00	5.01	52.9
1958	1.00	4.87	51.3
1959	1.00	4.84	49.5
1960	1.00	4.75	47.8
1961	1.15	5.41	53.7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

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

Source: Center on Budget and Policy Priorities

The Real Minimum Wage

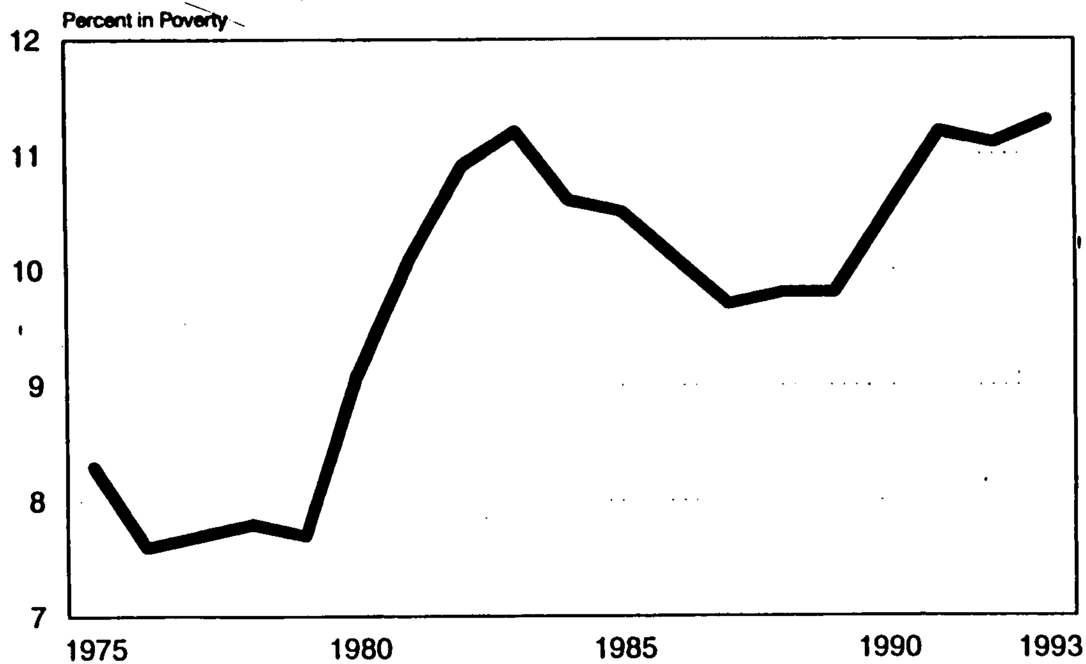
1960-1995



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

More Working Families are Poor

Percentage of Working Families in Poverty: 1975-1993



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

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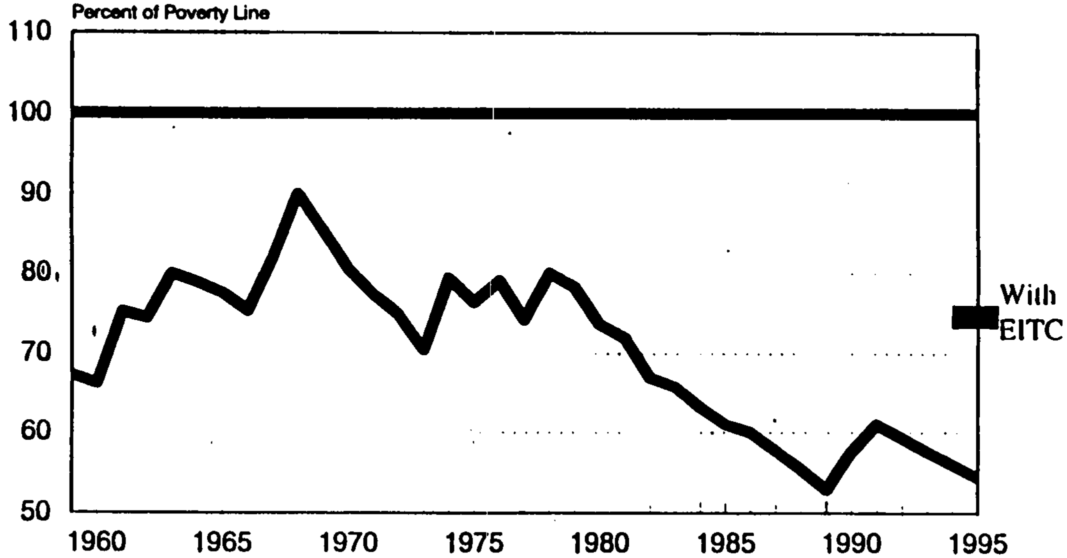
Minimum Wage Work Does Not Lift Families Out of Poverty

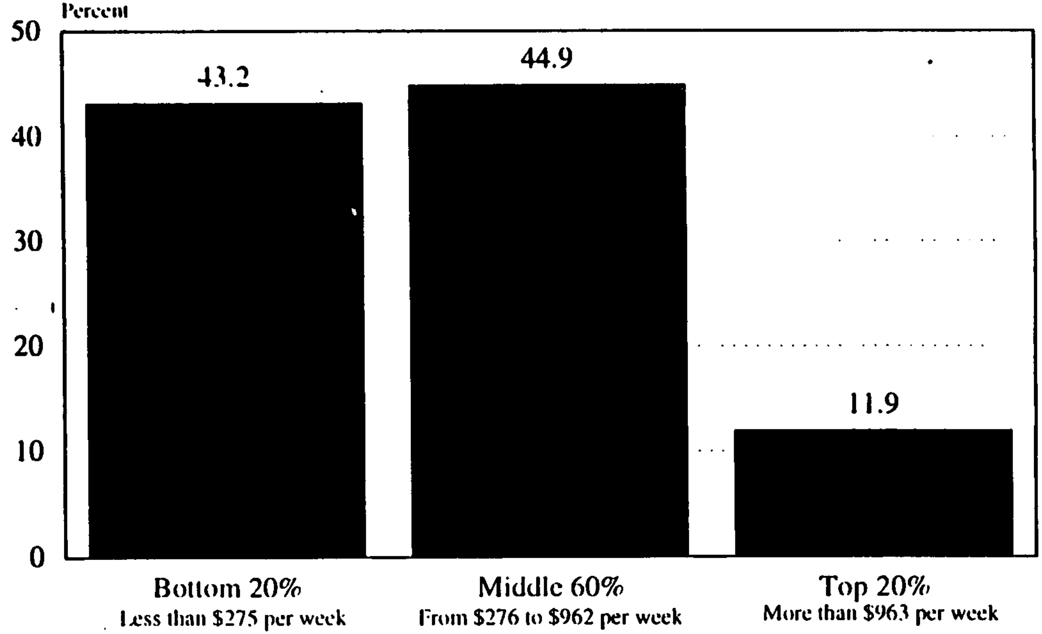
Annual Earnings at the Minimum Wage as a Percentage of the Poverty Line: 1959-1995



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

Who was Affected by the Last Minimum Wage Increase

Distribution by Family Earnings



Source: Card and Krueger (1995)

STATEMENT BY U.S. SENATOR ROD GRAMS OF MINNESOTA BEFORE THE JOINT ECONOMIC COMMITTEE

FEBRUARY 22, 1995

Thank you, Mr. Chairman, for holding this hearing of the Joint Economic Committee to discuss President Clinton's proposal to increase the minimum wage.

As the Republican majority takes power, we have a unique opportunity to act upon the people's agenda and debate the role of the federal government. It is time to start closely examining the policies and programs that have created a large number of people who are dependent on government. It is also crucial that we lead our country out of massive debt and on to economic prosperity.

Mr. Chairman, the best way to create economic prosperity is to provide people with opportunities and jobs that bring independence and dignity. On the federal level, we as Members of Congress must promote a healthy economic climate.

President Clinton has suggested we raise the minimum wage. I would like to show how this would effect opportunities, jobs, and the economy in my home state of Minnesota. According to a report commissioned by the Minnesota Department of Revenue, increasing the minimum wage by $1 will kill 6,600 Minnesota jobs by 1998, and 10,200 by the year 2000. Who will lose these jobs? Who are the people who will be forced to turn to government to make ends meet? The answer is clear -- it is Minnesotans who have limited education, limited experience, and limited skills. It is young Minnesotans, looking for a job to help pay their way through school. It is senior citizens, able and eager to work a part-time job after retirement. These are the people -- people of all ages -- who are laid off when business can no longer afford mandated increases in wages.

Mr. Chairman, as this debate progresses I strongly recommend we continue to ask what is the role of the federal government? I believe the answer should be to create an environment where job opportunities flourish and every individual is empowered to work towards the American dream.

Thank you.

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