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ABSTRACT

Restoration of an adequate minimum wage remains a critical ingredient in efforts to provide income security for poor and minority workers. The experience of recent years indicates that work does not provide economic security for many poor, Black, and Hispanic workers. National and minority unemployment rates have dropped during the economic recovery, yet many poor and minority workers continue to encounter economic hardship because their wages have remained low or have fallen. The earnings of many of these workers are at or near minimum wage levels. The dramatic drop in the value of the minimum wage to its lowest level since 1949 has compounded their earnings problems and increased their poverty rates. The Bush Administration offers its own minimum wage proposal as an alternative to the bill passed by Congress that Bush vetoed. However, the Administration's bill would establish a minimum wage still further below its historic value than the modest Congressional legislation, and would establish a broad-based sub-minimum "training" wage that could reduce the earnings of many adult workers who are already poor or members of minority groups. (Author/FMW)

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THE PRESIDENT'S VETO OF THE MINIMUM WAGE BILL:

Impact on Poor and Minority Workers

Isaac Shapiro

CENTER ON BUDGET AND POLICY PRIORITIES
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Isaac Shapiro is Senior Research Analyst at the Center, specializing in employment-related issues. He was formerly Research Associate with the Center for Social Policy Studies in Washington, D.C., where he co-authored with Sar A. Levitan the recently published book *Working but Poor: America's Contradiction.*

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Center on Budget and Policy Priorities
236 Massachusetts Avenue, N.E., Suite 305
Washington, D.C. 20002
(202) 544-0591

THE PRESIDENT'S VETO OF THE MINIMUM WAGE BILL: Impact on Poor and Minority Workers

In 1988. the national civilian unemployment rate was 5.5 percent -- the lowest rate since 1974. But this positive news on the employment front has not been matched by equivalent improvements in the standard of living of many workers and their families.

In particular, three partially overlapping groups of workers -- the working poor, blacks, and Hispanics -- continue to face severe income problems despite the economic recovery. The number of working poor people was far higher in 1987 (the latest year for which poverty data are available) than in the late 1970s. In addition, the poverty rate for both blacks and Hispanics was higher than in the late 1970s, while median family income was lower than in the late 1970s.

Part of the explanation for these divergent trends -- lower unemployment rates but increased poverty and decreased standards of living -- can be found in the erosion of the wage levels paid to many workers. The average wage of private nonsupervisory workers is now at *its lowest level since 1966*, after adjusting for inflation. The earnings of full-time black and Hispanic workers are much lower now than at the end of the 1970s, with this downward trend especially marked among young workers.

The earnings of many poor, black, and Hispanic workers share one characteristic: they are closely tied to the level of the federal minimum wage. All three groups are overrepresented among minimum wage workers, and part of their earnings problems can be attributed to the failure to raise the federal minimum wage since 1981. The minimum wage has fallen in purchasing power in every year since 1978 and is now at its lowest level since 1949.

This analysis examines recent earnings trends among poor and minority workers and how changes in the minimum wage have influenced these trends. It also examines the Bush administration's arguments for vetoing the congressional minimum wage legislation and the veto's implications for poor and minority workers.

The Earnings Problems of Poor, Black, and Hispanic Workers

The Working Poor. Despite the ongoing economic recovery and the low unemployment rate, the ranks of the working poor remain unusually large. The presence of such a substantial number of working poor confounds the commonly-held stereotypes of poor people.

- In 1987, some 1.9 million people worked full-time year-round but remained poor. An additional 6.6 million people worked, but on less than a full-time year-round basis, and remained poor.

- Of the 32.5 million people living in poverty, an estimated 18 million -- or *more than half* of the poor -- lived in a household where at least one household member worked during the year. An estimated five million people lived in a household where at least one household member worked full-time year-round.

- The vast majority of the working poor were in their prime working years (aged 22 to 64) and most were white (though minorities were overrepresented in their ranks).

- A disproportionately large share of the working poor live in rural areas. While 22.4 percent of the U.S. population live in nonmetropolitan areas, an estimated 33.4 percent of working poor families live in such areas.

The ranks of the working poor are larger now than when the national economy was at a similar point during the late 1970s. The years 1978 and 1987 both represented advanced stages of economic recoveries, and both years had similar unemployment rates. Yet the number of working poor was sharply higher in 1987 than in 1978, and poverty rates among workers were higher, as well.

- In 1987, the number of people who worked full-time year-round but were still poor was 42.9 percent greater than in 1978. There were 562,000 more full-time year-round working poor in 1987.

- The number of people who were poor despite working at some point during the year (including those working less than full-time year-round) was 27.9 percent -- or 1.8 million -- greater in 1987 than in 1978.

The unusually large number of working poor for this stage of the economic recovery is related to declines in wages. In 1988, the average hourly earnings of private nonsupervisory workers were lower than in any other year since 1966, after adjusting for inflation. These wages were about $1 per hour -- or 9.4 percent -- lower in 1987 than in 1978, in inflation-adjusted terms. During this same period, the value of the minimum wage fell sharply.

<u>Black Workers</u>. In 1988, the black unemployment rate was at its lowest level since 1974, and the proportion of black adults with jobs was at a higher level than at any point since 1972 (the first year for which these data are available).

Yet these positive signs on the employment front have not been accompanied by improvements in black income. Black poverty rates remain high -- one in three (33.1 percent) blacks lived in poverty in 1987, an increase over the 30.6 percent poverty rate for blacks in 1978. Median black family income was $889 lower in 1987 than in 1978, after adjusting for inflation. By contrast, median white family income edged up $287 during this period.

One reason for this disappointing record on poverty and income levels can be found by examining what has been happening to the wage levels paid to black workers. Wage levels for black workers are now lower than in the 1970s, with young black workers who head families having suffered an especially sharp decline in earnings.

- The median weekly earnings of black full-time workers was seven percent lower -- or $23 a week less -- in 1988 than in 1978, after adjusting for inflation. This translates into a wage decline of $1,200 on an annualized basis.

- Data that include both full-time and part-time workers who are paid by the hour tell a similar story. The median hourly earnings of black workers paid by the hour fell by eight percent from 1979[1] to 1988, after adjusting for inflation.

- According to a report prepared by the Children's Defense Fund and the Center for Labor Market Studies based on Census Bureau data, the median annual earnings of blacks under age 30 who head families were 28 percent lower in 1987 than in 1979, after adjusting for inflation.

Hispanic Workers. Among Hispanic workers, the divergent trends have been even more notable. Despite a fall in the Hispanic unemployment rate in the 1980s, Hispanic poverty rates are substantially higher -- and Hispanic family income levels are considerably lower -- than in the late 1970s.

The poverty rate for Hispanics shot up from 21.6 percent in 1978 to 28.2 percent in 1987, and has failed to show any statistically significant decline since the recession of the early 1980s, despite increasing Hispanic employment. In addition, typical family income among Hispanics fell by nearly $1,650 during this period.

Here, too, part of the explanation for these trends lies in declining earnings levels. The earnings of Hispanic workers were much lower in 1988 than in 1979 (the first year for which earnings data are available for Hispanic workers) -- and the gap between the earnings of Hispanic and white[2] workers has grown.

- The median earnings of Hispanics working full-time fell from $321 a week in 1979 to $290 a week in 1988, after adjusting for inflation. This is a drop of nearly 10 percent, or about $1,600 on an annualized basis.

- In 1979, the weekly earnings of the typical full-time Hispanic worker were 21 percent lower than the earnings of the typical full-time white worker. By 1988, this gap had grown to 26 percent.

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1. Comparable data for 1978 are not available.

2. People of Hispanic origin, as classified by the Census Bureau, can be of any race, although the majority are "white." If Hispanic whites were excluded from the category of white workers, the remaining group of non-Hispanic whites would have even higher earnings. Consequently, the difference between the earnings of Hispanics and non-Hispanic whites is even larger than indicated here.

- Once again, data for all full-time and part-time workers who are paid by the hour tell the same story. The median hourly earnings of Hispanic workers fell 10 percent from 1979 to 1988, after adjusting for inflation.

- As with blacks, the downward earnings trend has been especially marked among young workers. The study by the Children's Defense Fund and the Center for Labor Market Studies found that the median annual earnings of Hispanic family heads under age 30 fell by 20 percent between 1979 and 1987, after adjusting for inflation.

Large Increases in Workers Earning Below the Poverty Level. The proportion of workers who are paid wages which, for full-time work, would not lift a family of three out of poverty has increased dramatically in the 1980s.

Among all workers paid by the hour, the proportion earning a wage that would not lift a family of three out of poverty rose *an estimated 80 percent* from 1979 to 1988.[3] The proportion of black workers earning such wages rose a little less than did the proportion of all workers, but still increased by a substantial 69 percent. The proportion of Hispanic workers earning such wages shot up the most, more than doubling (rising 105 percent) from 1979 to 1988. *Among blacks and Hispanics, about one in four workers paid by the hour now earn wages so low that full-time work at these wages does not lift a family of three out of poverty.*

- An estimated 11.9 percent of all workers paid by the hour in 1979 earned a wage which, for full-time work, would not lift a family of three out of poverty. This proportion increased to 21.4 percent in 1988.

- An estimated 14.6 percent of all black workers paid by the hour in 1979 earned wages that would not lift a family of three out of poverty, compared to 24.7 percent in 1988.

- An estimated 12.1 percent of all Hispanic workers paid by the hour in 1979 earned wages that would not lift a family of three out of poverty; this figure more than doubled to 24.8 percent in 1988.

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3. Available Labor Department data enable us only to estimate these figures, but the estimates should be close to the actual figures. These estimates were made as follows. In 1988, working full-time (40 hours a week for 52 weeks) at $4.53 an hour would have provided enough income to lift a family of three out of poverty. Labor Department data include the number of hourly workers who earn less than $4.50 an hour as well as the number who earn between $4.50 to $4.99 an hour. The Center assumed that the number earning between $4.50 and $4.99 an hour were evenly distributed in order to obtain an estimate of how many earned from $4.50 an hour to $4.53 an hour. The Center then combined the actual number of workers earning below $4.50 an hour with the estimated number earning between $4.50 and $4.53 an hour. A similar calculation was made for 1979, based on the wage level then required to lift a family of three with a full-time worker up to the poverty line.

Poor and Minority Workers Are Concentrated Among Minimum Wage Workers

Many factors have played a role in the ongoing earnings problems of poor and minority workers. Broader developments in the economy have contributed, as have demographic factors. For example, the influx of Hispanic immigrants has probably driven down median earnings levels. However, public policy developments have also played an important role, including federal policy toward the minimum wage.

The value of the federal minimum wage has declined every year since 1978, after adjusting for inflation.[4] It now provides less purchasing power than in any year since 1949. As is well known, the value of the minimum wage has declined markedly since it was last raised in January 1981. The wage floor has remained at $3.35 an hour for more than eight years, while prices have risen by 41 percent. The minimum wage had also declined in real value from 1978 to 1981, when the yearly increases in the minimum wage legislated by Congress did not keep pace with inflation.

The decline in the value of the minimum wage has especially affected the earnings of poor and minority workers, who are overrepresented among the ranks of minimum wage workers. Poor workers are two-and-one-half times as likely as nonpoor workers to have earnings at or near the minimum wage. Both black and Hispanic workers are more than 40 percent more likely than white workers to have jobs that pay at or near the minimum wage.

- In 1987, more than half (57.2 percent) of the workers who were paid by the hour and were poor had earnings of $4.35 an hour or less. By contrast, only 21.7 percent of the hourly workers who were not poor were paid $4.35 an hour or less.

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4. Some opponents of an increase in the minimum wage have asserted that a simple relationship exists which links the fall in the unemployment rate in the 1980s, the rate of job growth, and the fall in the value of the minimum wage. Such assertions are not supported by the evidence, however. The unemployment rate has not fallen as a result of any increase in the rate of job growth in the 1980s. On the contrary, the rate of job growth has been *lower* in the 1980s than in the 1970s. Rather, what underlies the drop in the unemployment rate is a slowing in the rate of growth in the overall size of the labor force.

- Some 20.7 percent -- or one in five -- black hourly and salaried workers in 1988 had earnings of less than $4.50 an hour,[5] which is much higher than the proportion of white workers (14.7 percent) with earnings in this range.

- Similarly, 21.3 percent -- or more than one in five -- Hispanic hourly and salaried workers in 1988 had earnings of less than $4.50 an hour, indicating that they too are overrepresented among workers earning at or near the minimum wage.

A growing number of analysts who have studied low-wage work and its relationship to poverty have concluded than an increase in the minimum wage is a necessary component of a strategy to alleviate poverty among workers and their families. These experts include economist Isabel Sawhill of the Urban Institute[6] (former staff director of the National Commission on Employment Policy) and poverty expert Professor David Ellwood of Harvard University. For example, in Ellwood's recent and highly acclaimed book on poverty among American families, he recommends returning the minimum wage "back to the level of the 1970s and adjusting it to the rate of inflation or the growth in other

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5. Different cutoff points are used in examining the proportion of poor and minority workers earning at or near the minimum wage because data are not available to allow the use of the same cut-offs. However, $4.35 an hour in 1987 (the cutoff used for the proportion of poor workers) is roughly equivalent to $4.50 an hour in 1988 (the cutoff used for the proportion of minority workers), after adjusting for inflation.

The data used here for black workers (and in the next bullet for Hispanic workers) are for workers who are paid by the hour or receive salaries; by contrast, the data on all poor and nonpoor workers include only hourly workers, because such data including salaried workers are not available. Similarly, in the previous section "Large Increases in Workers Earning Below Poverty Level," the data also include just hourly workers. It was necessary to use this data in order to compare figures over time; wage data for hourly and salaried workers for 1979 are not readily available. When available, data that include salaried workers are used because it provides a better sense of the effects of the minimum wage on the total workforce. Salaried workers earning low wages may not be directly covered by changes in the minimum wage, but there is likely to be an indirect effect, as employers adjust their employee's salaries to reflect the federal minimum wage.

6. For example, in her recent paper co-authored with Susan Hendrickson ("Assisting the Working Poor," Changing Domestic Priorities Discussion Paper, The Urban Institute, May 1989, p. 23), Dr. Sawhill and her co-author conclude: "Structuring these policies to benefit the working poor involves weighing competing aims including: providing the most adequate assistance to the working poor, creating the greatest work incentives, controlling government outlays, and restraining inflation. The best balance seems to involve a combination of increasing the minimum wage and adjusting benefit levels in the Earned Income Tax Credit."

wages. Without such a change, it is virtually impossible to guarantee that work will pay enough to keep families out of poverty."[7]

Most recently, in May 1989 the Ford Foundation released the results of a comprehensive multi-year review of social welfare problems and policies. The policy recommendations of the Executive Panel, which was chaired by Irving Shapiro, former chief executive officer of the duPont company, include "restoring the purchasing power of the minimum wage to its 1981 level."[8]

The Recent Minimum Wage Veto

One of the principal reasons given by President Bush for his recent veto of the minimum wage bill sent to him by Congress is that it set too high a minimum wage level. He has proposed raising the minimum wage to $4.25 an hour by 1992. The vetoed legislation would have provided a minimum wage of $4.55 an hour in 1992.[9]

The administration's proposal would provide for a minimum wage level that would remain far below its historic value. A minimum wage of $4.25 an hour in 1992 would leave many full-time minimum wage workers with earnings well below the poverty line and would recapture only a fraction of the ground the minimum wage has lost to inflation.

- Throughout the 1960s and 1970s, full-time year-round work at the minimum wage generally lifted a family of three above the poverty line. Today such work leaves a family of three some $2,900 below the poverty line.
- Under the administration's proposal, full-time minimum wage earnings in 1992 would still fall $2,200 below the poverty line for a family of three (in 1989 dollars). Full-time minimum wage work would provide pay equal to 78 percent of the projected 1989 poverty line for a family of three.
- As noted, the Executive Panel of the Ford Foundation study group recommended restoring the value of the minimum wage to its 1981 level. By contrast, the administration's proposed minimum wage of $4.25 an hour in 1992 would provide nearly $1 less in purchasing power than did the minimum wage in 1981 (after adjusting for inflation). (Based on Congressional Budget Office estimates of future inflation, the minimum wage

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7. David Ellwood, *Poor Support: Poverty in the American Family*, Basic Books, 1988, p. 112.

8. Ford Foundation Project on Social Welfare and the American Future, Policy Recommendations of the Executive Panel, *The Common Good: Social Welfare and the American Future*, May 1989, p. 55.

9. More precisely, the congressional legislation would have established a minimum wage of $4.55 an hour effective in October 1991.

would need to equal $5.24 an hour in 1992 to provide the same purchasing power as the minimum wage provided in 1981.)

- In 1992, a minimum wage of $4.25 an hour would be *lower than it was in every year from 1956 to 1986*, after adjusting for inflation.

- After adjusting for inflation, the $4.25-an-hour wage level would provide only about the same purchasing power as the minimum wage provided in 1987, after six years without a minimum wage increase.

The legislation vetoed by the President would provide somewhat greater restoration of the minimum wage. A $4.55-an-hour minimum wage in 1992 (the level in the vetoed legislation) would provide $600 more in earnings over the course of a year for a full-time worker than would the President's proposed $4.25-an-hour minimum wage.

Nonetheless, even the vetoed legislation would only partially restore the minimum wage. A minimum wage of $4.55 an hour in 1992 compares as follows to historic levels:

- Full-time minimum wage earnings of $4.55 an hour in 1992 would equal 83.6 percent of the projected poverty line for a family of three, as compared to an average of more than 100 percent of the poverty line for a family of three in the 1960s and 1970s. Under the vetoed bill, full-time minimum wage earnings would still leave a family of three $1,600 below the poverty line.

- The minimum wage in 1992 would be 69 cents an hour below its 1981 value, after adjusting for inflation.

The vetoed legislation was modest because it had been scaled back sharply from the original Kennedy/Hawkins minimum wage legislation introduced in 1987 (Senator Edward Kennedy and Congressman Augustus Hawkins were the lead sponsors of the vetoed legislation). The original proposal would have raised the minimum wage to approximately $5.50 an hour in 1992, enough to lift a family of three to the poverty line and to recapture fully the ground lost to inflation.

The Administration's Subminimum Wage Proposal

Another reason the President has given for vetoing the minimum wage bill is that it did not provide the subminimum wage provision he favors. President Bush's proposal would provide for a subminimum or "training" wage for the first six months of a new hire's employment. (A "new hire" would be anyone hired by a firm who has not previously worked at that firm.) The subminimum wage would equal 80 percent of the regular minimum wage.

Under the administration proposal, individuals employed under this new hire provision would receive $3.40 an hour in 1992 (80 percent of the regular minimum wage of $4.25). After adjusting for inflation, the subminimum wage of these new hires would be *lower* in purchasing power than the current value of the minimum wage.

- Under the administration proposal, new hires would receive a subminimum wage 11 percent lower than the current minimum wage, after adjusting for inflation. The purchasing power of this subminimum wage in 1992 would be equivalent to a $2.97-an-hour wage today.

This low subminimum wage would apply to a large number of poor and minority workers. Since many minimum wage jobs last for less than six months, employers could pay the subminimum wage for the entire duration of many employees' jobs.

- Susan Hendrickson and Isabel Sawhill of the Urban Institute recently estimated that "40 percent of low-wage workers (those earning less than $4.35 in 1987) would be eligible to receive the [administration's] subminimum wage for new hires."[10]

Under the administration's proposed subminimum wage for new employees, it is not only teenagers who could receive what would amount to a pay cut when compared with the current level of the minimum wage. All workers employed at a firm for the first time could be paid the subminimum, even if they had extensive work experience at other firms. The Hendrickson and Sawhill report further estimates that "almost half, 45 percent, of those employed at the subminimum would be adults."

Consequently, many newly-hired workers who have work experience and have the skills for their particular job -- and whose income is vital to the needs of their family -- could be subject to the subminimum wage.

This would be a particularly serious problem for certain groups of workers -- such as farmworkers, who by the very nature of their employment often remain with the same farm employer for less than six months. Many farmworkers, who are much more likely than other workers to be poor or to be Hispanic, could be paid the subminimum by each new employer.

- The Minimum Wage Study Commission, appointed by Congress in 1977 to review minimum wage issues (it issued its report in 1981), estimated that half of migrant farmworkers earned at or near the minimum wage.[11] The Migrant Legal Action Program estimates that the administration's subminimum wage proposal would exclude virtually all migrant farmworkers from regular minimum wage coverage.

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10. Susan E. Hendrickson and Isabel V. Sawhill, "Assisting the Working Poor," Changing Domestic Priorities Discussion Paper, The Urban Institute, May 1989, p. 21.

11. The Commission found that 51.3 percent of migrant workers earned less than $3.35 an hour in 1980, when the minimum wage equaled $3.10 an hour. More than two-thirds (67.4 percent) of migrant workers earned less than $3.75 an hour that year.

The administration's new hire wage would also create an incentive for employees to "churn" their workers -- to pay a new worker the subminimum for six months, then lay off that worker and replace him or her with another new worker who would be eligible for the subminimum for the next six months. While the administration says it would not permit such churning, it has failed to present a workable proposal to prevent this practice. At the least, individuals approaching their seventh month of employment (or who have been employed for more than six months) would be put in a precarious position, knowing that their employer could replace them at a wage at least 20 percent lower than their own.

Is It a "Training Wage"?

The administration has labeled this new hire provision a "training wage." The logic behind a training wage is that employers need the extra incentive of paying a lower wage to hire unskilled workers and train them to perform their new jobs.

Yet the dimensions of the administration's proposal do not provide for a true training wage. First, as noted, individuals who have worked for other employers and already acquired skills could be paid this subminimum wage. Second, employers could pay the subminimum level whether or not any training occurs or is even needed.

The length of payment of this subminimum wage also sheds doubt on its billing as a training wage. Few minimum wage jobs require six months of training. For example, a General Accounting Office study cites Labor Department estimates that the following jobs require a *maximum* of 30 days of training: assembler, custodian, dishwasher, food service worker, laundry worker, and laborer. These are the kinds of jobs that often pay at or near the minimum wage.

A true training wage would require training, would be paid for a period substantially shorter than six months, and would focus on individuals who lack skills or work experience.

The legislation vetoed by the President also included provisions establishing a subminimum wage, but these provisions come much closer to meeting the tests of a true training wage than does the administration's proposal. Under the vetoed legislation, employers could pay employees a subminimum wage only if the employees are actually engaged in on-the-job training. In addition, a worker could be paid the subminimum for only two months rather than for six months, and only if the worker had less than 60 cumulative days of prior work experience with prior employers (so that individuals with developed work skills and prior work experience could not be paid at the subminimum level). In addition, migrant and seasonal agricultural workers would be categorically exempted from being subject to this subminimum wage.

Finally, the subminimum wage in the vetoed legislation would equal 85 percent of the regular wage, rather than 80 percent of the regular wage as in the Bush proposal. In 1992, the subminimum wage would equal $3.87 under the bill that was vetoed (85 percent of $4.55), whereas the Bush subminimum wage would equal $3.40 that year (80 percent of $4.25).

TJTC: The Overlooked Training Wage for Poor and Minority Workers

The administration's argument on behalf of its training wage proposal -- that a training wage is needed for poor, young and unskilled workers who are having difficulty breaking into the labor market -- also ignores an existing government policy already focused on these workers, the Targeted Jobs Tax Credit.

Established in 1978, the TJTC is an inducement for employers to hire "targeted workers," who include economically disadvantaged individuals aged 16 to 22, recipients of various income-tested transfer programs, and disabled people. The tax credit provided to the employer generally equals 40 percent of the first $6,000 paid to targeted workers.

While the TJTC program is not without problems,[12] it has some clear advantages over the administration's subminimum wage. First, the TJTC does not cut the pay of workers (the tax credit goes to the employer, while the employee's pay remains unchanged). By contrast, the administration's subminimum wage cut of 20 percent comes directly out of a worker's pay. Second, the TJTC provides a much larger inducement to employers to hire these targeted individuals (a 40 percent cut in the wage costs to the employer) than would the administration's subminimum wage proposal (which provides a 20 percent wage cut).

Lastly, employers get the TJTC only when they hire *targeted* individuals, giving these workers an extra edge over *nontargeted* individuals. By contrast, the administration's subminimum wage proposal does *not* give employers the incentive to hire workers who are economically disadvantaged instead of other workers, because both groups of workers could be paid the subminimum wage.

If the administration believes lower wages are necessary as an inducement to hire targeted groups of workers, it might better focus its efforts on improving the TJTC rather than proposing a new subminimum wage that would lower the wages of many skilled and adult workers. Instead, the administration has proposed to terminate the TJTC at the end of 1989 -- and to institute its sweeping subminimum wage. (The current TJTC runs through the end of 1989, and Congress will consider shortly whether to extend it. The administration opposes its extension.)

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12. Most notably, it is not clear to what extent the TJTC has achieved its primary purpose of expanding the hiring of targeted individuals. Requests from employers for certification (and therefore tax credits) for newly hired targeted individuals can be made by submitting their names to the local public employment office on or before the date the individuals begin work. There is evidence that some employers would have hired the same individuals in the absence of the TJTC (and in some cases had already hired them). In these instances, the TJTC provides a subsidy to employers without increasing the hiring of targeted individuals. It should be noted, however, that the administration's subminimum wage would have this same problem: some of the employees hired at the subminimum wage would have been hired anyway, at the regular minimum wage.

The Minimum Wage and Job Loss

In vetoing the recent legislation, the administration has argued that minimum wage proposals providing a higher wage than its own, or without its "training wage," would cause unacceptably large adverse effects on employment opportunities. The administration has estimated that a minimum wage of $4.65 an hour, without any expansion in exemptions from minimum wage coverage, would lead to the creation of 650,000 fewer jobs, while its own proposal would lead to the loss of 227,000 jobs.

Careful examination of the evidence does not support these claims, however, which appear highly inflated. The administration's job loss estimates are based on outdated labor market studies from the 1960s and the 1970s and on a questionable method of applying these studies to project employment losses.

In contrast, the nonpartisan Congressional Budget Office estimates that increasing the minimum wage to $4.65 an hour, without any training wage, "would cause a loss of approximately 125,000 to 250,000 jobs by 1992. Our [the CBO's] best judgement is that the job loss will probably fall *near the lower end of that range*" (emphasis added).

Thus the CBO estimate of the job loss resulting from a minimum wage that is more generous than that passed by Congress is that it would cause a loss of jobs smaller than what the administration has said it is willing to accept as a result of its own proposal. And since the CBO estimates did not account for the offsetting effects of certain provisions of the bill that was ultimately vetoed -- including the training wage, the expanded exemption from minimum wage coverage of small businesses, and the expanded "tip credit"[13] -- the CBO estimate is likely to have overstated the job loss that would have stemmed from the bill.

Moreover, the CBO estimate reflected studies based on labor market data only through 1979. Labor markets have changed considerably since then. Recently, a new minimum wage study has become available that incorporates labor market data through 1986.[14] Revised job loss estimates of the vetoed legislation that are based on this study --

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13. The congressional legislation would exempt virtually *all* small businesses with gross incomes of less than $500,000 from paying the minimum wage. Under current law, the gross income limit is $362,500 and applies primarily to retail and service businesses. In addition, the legislation would increase the tip credit from its current level of 40 percent to 50 percent. The larger the credit, the smaller the amount that employers have to pay to make up the difference between tips and the minimum wage. Both provisions reduce the effects of a higher minimum wage on employers.

14. The job loss study generally regarded by academic researchers as the leading study produced on this issue is the analysis by the economists of the Minimum Wage Study Commission. The results of this study, originally based on labor market data through 1979, are the principal findings used by CBO in its job loss estimate of 125,000 jobs. The (continued...)

and that account for the offsetting effects of the small business and tip credit provisions of the bill -- indicate that the bill would have led to the loss of 60,000 jobs. Moreover, this revised estimate does not account for the effects of the training wage, which would reduce job losses further. This updated job loss estimate represents a very small proportion of total employment.

One other point worth considering in this regard is that all of the job loss estimates mentioned here consist primarily of teenagers and do not consist at all of adults aged 25 or over. There is not strong evidence that minimum wage increases cause job loss among those 25 or over.

A second job loss argument raised by some opponents of a minimum wage increase is that minority workers would be overrepresented among those who would lose job opportunities becaus of the increase in the minimum wage.

Yet economic studies do not support the claim that the reduction in job opportunities would be concentrated among minorities. For example, the Minimum Wage Study Commission reviewed all previous analyses of the minimum wage and employment, with its economists also conducting their own study. The Commission found the empirical evidence did not support the claim that minorities would be disproportionately affected by losses in job opportunities due to a minimum wage increase. The Commission stated, "Estimated employment effects were *smaller* [indicating that job loss effects would be smaller] for nonwhite than white teenagers" although the Commission noted that the difference in the employment impact on whites and minorities was not statistically significant.[15] The Study Commission's analysis of data through 1979 has since been updated with labor market information through 1986, and the results are similar.

Given that the job loss effects for the poor and minorities are likely to be small, the net effect of a minimum wage increase on these groups can be expected to be positive. Ronald Mincy, a researcher at the Urban Institute, has estimated that boosting the minimum wage to $4.65 an hour would reduce the amount by which the incomes of working poor families fall below the poverty line by 17.9 percent, or $1.4 billion. Approximately 264,000 working poor families would be lifted out of poverty, he estimates. These estimates are for the *net* effect of a minimum wage increase, *after* job losses are factored in.

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14. (...continued)
study by the Commission's economists has been recently updated, however . This new work -- conducted by Alison Wellington of the University of Michigan, under the supervision of one of the senior economists for the Minimum Wage Study Commission -- replicated the job loss study of the Commission staff, but with labor market data through 1986. The Wellington update finds smaller employment effects.

15. *Report of the Minimum Wage Study Commission, Volume 1* (Washington, DC: U.S. Government Printing Office, 1981), p. 40.

The Congressional Budget Office has also concluded that the net effect of minimum wage legislation would be positive. Its director stated: "The aggregate earnings of low-wage workers would rise because the additional amount of earnings received by those who would be paid the higher minimum wage would exceed the wages lost through lower employment."[16]

Moreover, if society wants poor people to work their way out of poverty and to encourage work effort among young minorities, then raising the minimum wage could yield another dividend: it could have a positive work incentive effect, bringing more people into the labor market and making work relatively more attractive as compared either to public assistance[17] or to various illicit endeavors in the underground economy.

Conclusion

The experience of recent years indicates that work does not provide economic security for many poor and minority workers. National and minority unemployment rates have dropped during the economic recovery. Yet many poor and minority workers continue to encounter economic hardship because their wages have remained low or fallen.

The earnings of many of these workers -- including over half of the poor workers paid by the hour and one of every five minority workers -- are at or near minimum wage levels. The dramatic drop in the value of the minimum wage to its lowest level since 1949 (after adjusting for inflation) has compounded their earnings problems and increased their poverty rates.

The administration offers its own minimum wage proposal as an alternative to the bill passed by Congress that it has vetoed. However, the administration's bill would establish a minimum wage still further below its historic value than the modest congressional legislation -- and would establish a broad-based subminimum wage that could reduce the earnings of many adult workers who are already poor or from minority groups.

Adequate restoration of the minimum wage remains a critical ingredient of efforts to provide income security for poor and minority workers.

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16. Letter of CBO director Robert Reischauer to Representative Augustus Hawkins, March 17, 1989. (The letter was in response to Rep. Hawkins' request for information about the impact of the proposed minimum wage bill on the economy.)

17. This point should not be misconstrued. The benefits from working can be less, or only minimally more, than the benefits from government assistance. However, this is *not* because government assistance is generous, but rather because the rewards from working can be small. In fact, the support provided by government benefit programs for low income families has diminished sharply in recent years and, in most cases, leaves recipients well below the poverty line. For example, in the typical state, maximum AFDC benefits for a family of four without other income fell 23 percent from 1978 to 1988, after adjustment for inflation. In addition, in the typical state, maximum AFDC benefits equal less than half the poverty line.