DOCUMENT RESUME

ED 387 628 CE 070 002

TITLE	Understanding the Minimum Wage: Issues and Answers.
INSTITUTION	Employment Policies Inst. Foundation, Washington, DC.
PUB DATE	Jun 95
NOTE	21p.
PUB TYPE	Reports - Research/Technical (143)
EDRS PRICE	MF01/PC01 Plus Postage.
DESCRIPTORS	Adult Education; Career Education; *Economic Impact; Employed Parents; *Employment Patterns; Employment Programs; *Equal Opportunities (Jobs); Job Training; Labor Economics; *Labor Market; Macroeconomics; *Minimum Wage; Mothers; *Poverty; Public Policy; State Surveys; Welfare Recipients; Youth Employment
IDENTIFIERS	California; New Jersey; Texas; Welfare Reform

ABSTRACT

This booklet, which is designed to clarify facts regarding the minimum wage's impact on marketplace economics, contains a total of 31 questions and answers pertaining to the following topics: relationship between minimum wages and poverty; impacts of changes in the minimum wage on welfare reform; and possible effects of changes in the minimum wage and job loss. Among the issues addressed in the individual questions are the following: characteristics of individuals who work at the minimum wage; whether a higher minimum wage would help selected groups such as poor families, low-skilled adults, and minorities; whether the minimum wage should be linked to other wages in the economy, the Consumer Price Index, and/or inflation; the types of jobs people take when leaving welfare; whether individuals leaving welfare for entry-level jobs will require permanent income support; the findings of studies examining the link between the minimum wage and job loss in California, New Jersey, and Texas; and the effects of minimum wage increases on youth employment and unemployment. The bibliography lists 64 publications dealing with the following topics: labor market and employment effects of the minimum wage; youth and the minimum wage; macroeconomic effects; and poverty and equity issues. (MN)

Understanding the Minimum Wage

Issues and Answers

Table of Contents

1

Minimum Wages and Poverty

"Legislators are right to search for ways to help the working poor, but wrong to think that raising the minimum wage is one of them."

The New York Times

II

The Minimum Wage and Welfare Reform

What types of jobs do people take when leaving welfare?

Can entry-level wages replace welfare benefits?

Will those leaving welfare for entry-level jobs require permanent income support?

Would raising the minimum wage help welfare recipients seeking work?

Should the focus of welfare reform be on government training?

Do minimum wage workers receive training?

What is the answer to low earnings?

III

The Minimum Wage and Job Loss

Do higher minimum wages lead to job loss?

Have economists changed their view on higher minimum wages?

Did a study of fast food restaurants in New Jersey find no job loss as a result of higher minimum wages?

Were other criticisms made of the New Jersey study?

Did similar data problems exist in the Texas fast food study?

Did a study find that California employment suffered no job loss from a higher minimum wage?

Have other recent studies found employment losses from higher minimum wages?

Does the minimum wage affect employment other than through job loss?

Is teenage employment affected by minimum wage increases?

Is there any historical evidence that increases in the minimum wage create unemployment?

IV

Bibliography

Labor Market and Employment Effects of the Minimum Wage

Youth and the Minimum Wage

Macroeconomic Effects

Poverty and Equity Issues

Endnotes

"A higher minimum will further reduce the employment opportunities of workers with few skills."

Gary Becker
1992 Nobel Laureate, Economics

June 1995

Debates over increasing the minimum wage have historically combined the hard reality of marketplace economics with the more forgiving interests of social goals. This publication is designed to separate and quantify facts in these two areas and present these facts in a clear, concise format. Much of the material on the following pages is new, having been researched over the last three years.

Among the issues addressed by new research:

- *What impact would a minimum wage increase have on welfare reform?* Peter Brandon of the University of Wisconsin provides some clues in a 1995 study. He found that mothers on welfare in states that raise their minimum wage spend up to 44% longer periods of time on public assistance than welfare recipients in other states.

- *Would raising the minimum wage help single parents?* David Macpherson of Florida State University and William Even of Miami University conclude that only 4.4% of the benefits from a higher minimum wage would go to single mothers with children at home.

- *Does a higher minimum wage result in fewer jobs?* Lowell Taylor of Carnegie Mellon University studied employment in retail businesses in California after the last state-imposed minimum wage increase. Even though retail sales in California were growing at almost twice the national rate, he found retail employment grew 14% slower than the national average.

The evidence is clear. Higher minimum wages result in significantly longer spells on welfare, do not target groups policymakers want to help, and cost entry-level employment opportunities. This publication highlights these and other significant findings regarding who is working at the minimum wage, what the impact of an increase would be, and how to best help the low-skilled work force attain higher incomes.

Sincerely,

Richard B. Berman
Executive Director
Employment Policies
Institute Foundation

Minimum Wages and Poverty

Who works at the minimum wage?

- Minimum wage employment continues to be largely tied to work experience. More than 26% of teens aged 16-17 work at the minimum wage. This falls to 14% for workers 18-20, and continues to fall with increased time in the work force. By age 30 only 2% of workers are at the minimum. Moreover, by age 40 only 8/10 of 1% of workers are working full time at the minimum wage.

- The majority of minimum wage workers are under age 25.

- There are more than 700,000 teens working at the minimum wage who live in households where family income exceeds $30,000.

- Overall, only 37% of minimum wage workers work full time.

- More than 40% of minimum wage workers are teens and young adults living at home.

- One-fifth of minimum wage workers are single individuals with no children.[2]

Are adult minimum wage workers responsible for families' support?

Most minimum wage workers are not supporting a family—they are single individuals. Of the 4.2 million workers at the minimum, only 35% (1.5 million) are adults in families. Almost 900,000 of these are in families with annual incomes above $15,000, and almost 500,000 of these adults are in families with annual incomes above $30,000.

There are more minimum wage adults in families with incomes above $30,000 than in families with incomes below $10,000.[3]

How large is the problem of single parents at the minimum wage with multiple children?

The image of the single mother supporting three children on a minimum wage income is frequently invoked to justify a mandated wage increase. Only 6.5% of minimum wage workers are single parents. Just 53,000, slightly over 1%, have three or more children. Additionally, only half of this latter group – 27,000 – is working full time.[4]

Are low wages a major cause of poverty?

The dominant characteristic of low income households is not low wages at which household members work, but rather that so few of them have employment-based income. Looking at the poorest fifth of American families, 63% have no workers at all. And only 16% have a family member who works year round.[5] Lack of work, not low wages, is the chief characteristic of the poorest Americans.

There is at best a tenuous link between low wages and low income. Many low-wage workers are either teens or secondary workers in families with otherwise

Table 1. Percent of Workers Employed at the Minimum Wage in Each Age Group

Age	Percent
16-17	26.4
18-20	14.2
21-24	7.0
25-29	2.9
30-40	2.0
40+	1.9

Low-skilled adults in states that raised their minimum wage were often crowded out of the job market by teens and students.

Kevin Lang,
Boston University, 1995.

comfortable (or high) incomes.[6] More low-wage workers (those earning $6.00 an hour or less) are in families with incomes above $20,000 than in families below $10,000.[7] As Secretary of Labor Robert Reich noted to President Clinton, "Most minimum wage workers are not poor."[8]

Has a stagnant minimum wage contributed to an increase in poverty?

In the last decade (1980-90) the poverty rate rose from 11.5% to 12.0%. Over that same time, however, the poverty rate for two-parent families actually fell from 7.4% to 7.1%. The increase in the number of poor people was driven by the drastic explosion in the number of single-parent families: between 1980 and 1990 the number of persons in these families increased by 23%. Single-parent families, almost by definition, consistently exhibit lower earnings than dual-parent families, and the distinction has little relation to the minimum wage. It was the increase in the number of these households that drove up the overall poverty rate.[9]

Would raising the minimum wage reduce the number of poor people?

Looking specifically at groups likely to be affected by an increase in the minimum wage (young adults, junior high dropouts, etc.), researchers have found no reduction in poverty rates as a result of increases in state minimum wages.[10] For example, the last time the minimum wage was increased, junior high school dropouts experienced no reduction in their poverty rates despite the 27% increase in the minimum. While some members of these groups may have realized higher earnings, those higher earnings were insufficient to offset the negative employment impact within these groups.

How efficient is the minimum wage for helping poor families?

Researchers have found the minimum wage is a highly inefficient tool for raising the income of poor households. Because many low-wage workers are found in higher-income households, 57% of the benefits from the last federal minimum wage increase (from $3.35 to $4.25) went to families with incomes at least twice the poverty level. Only 17% went to families below the poverty line. Thirty-six percent of the benefits went to families whose income was at least three times the poverty level, or close to $45,000 for a family of four.[11]

Would a higher minimum wage help low-skilled adults?

A minimum wage increase induces applicants with higher skills than most entry-level workers to apply for entry-level positions. These applicants crowd out lesser-skilled workers who depend on these jobs.

This phenomenon has been recognized from the earliest days of the minimum wage. In 1938, the Department of Labor reported "workers who had been receiving less than [the new minimum wage of] 25 cents had been laid off and replaced by more efficient workers."[12] *The New York Times* reported in 1992 that the most recent federal increase in the minimum wage had resulted in a similar employment shift.[13]

Recent research has also documented significant changes in the composition of the work force after a minimum wage increase. Employers tend to replace adult workers with students and teenagers after a minimum wage increase, and also tend to replace full time employment with part time employment. A $1 difference in average wages brought on by minimum wage increases is associated with a 9% drop in adult low-wage employment.[14]

"[T]he entry-level jobs available to the poor, particularly to inner city youth, provide vital experience in learning the basic requirements of holding a job."

The Baltimore Sun

Would raising the minimum wage improve the economic status of minorities?

More than 80% of the minimum wage work force is white. Consequently, the lion's share of any increased earnings for workers — those not displaced from their jobs by a higher minimum wage — would accrue to the non-minority population.

How much of a higher minimum wage would benefit families?

If the minimum wage were raised to $5.15 today, less than 5% of the higher earnings would go to single parents. Two-adult families (with or without children) who are dependent on a single minimum wage worker would receive less than 9% of the increased earnings.

Is the value of the minimum wage at a historic low?

Prior to 1966, most jobs held by today's minimum wage workers were not covered by the minimum wage law. This includes almost all employment sectors in which entry-level work is now concentrated: retail, restaurant, hotel, laundry, food processing, agriculture, and domestic services.

The expansion of the minimum wage law's coverage invalidates simple time/wage distinctions. Only 56% of non-supervisory employees were covered by the minimum wage thirty years ago.

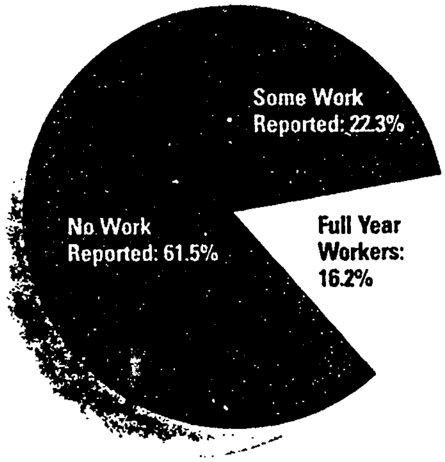


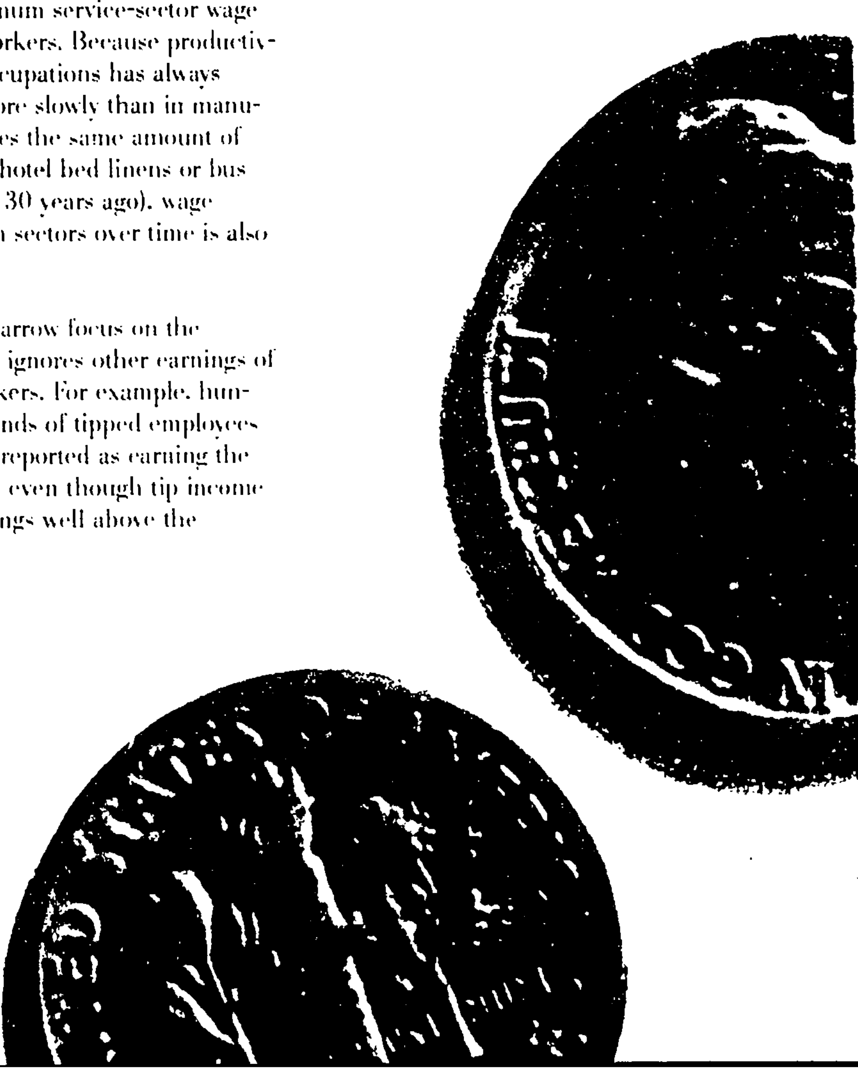
Table 2. The Poorest American Households

Today, the comparable figure is 89%. Whereas the minimum wage was originally a wage floor for relatively high-skilled manufacturing, mining and transportation workers, it has now become a minimum service-sector wage for unskilled workers. Because productivity in service occupations has always grown much more slowly than in manufacturing (it takes the same amount of time to change hotel bed linens or bus a table as it did 30 years ago), wage linkage between sectors over time is also irrelevant.

In addition, a narrow focus on the minimum wage ignores other earnings of entry-level workers. For example, hundreds of thousands of tipped employees are statistically reported as earning the minimum wage even though tip income puts total earnings well above the minimum.

The last time the federal minimum wage was increased, only 17% of the new benefits went to poor families.

Richard Burkhauser, Syracuse University, and Andrew Glenn, Vanderbilt University, 1994.



Should the minimum wage be linked to other wages in the economy?

It is frequently remarked that the minimum wage was 50% of average wages in the 1970s and by 1994 had fallen to less than 35%. Such a simple statement, however, fails to account for the largest demographic event of the 20th century: the "baby boomers" have moved from being new work force entrants into their high wage earnings years. The large bloc of baby boomers skews any measure of average wages in the economy simply by force of numbers. Fully half of the change in the relationship between minimum and average wages is a statistical artifice caused by these demographic shifts.[17] Consequently, if we had indexed the minimum wage to the average wage prevailing in the mid-1970s, it would now be over-indexed by at least 120%.

Should the minimum wage be linked to the Consumer Price Index?

Indexing the minimum wage to average inflation rates assumes that all parts of the country share a similar experience in their inflation rates and economic strength. But variations in economic vitality in different parts of the country would concentrate the negative employment effects of a higher minimum wage in regions with the weakest labor markets.

In testimony before Congress in early 1995, Federal Reserve Chairman Alan Greenspan reported the Consumer Price Index may overstate the true inflation rate by as much as 1.5%[18], or more than half of 1994's inflation rate of 2.7%. Correcting inflation for this potential 1.5% annual bias yields a 1995 inflation-adjusted value for the 1971 minimum wage of $4.22, less than the current federal level of $4.25.

What would happen if the minimum wage had been indexed to inflation during the 1980s?

A policy to put wage increases on automatic pilot could have disastrous consequences for low-wage workers. Consider that in 1982:

- The U.S. economy shrank by 2.2%, the strongest postwar recession the country had experienced.
- Overall unemployment was 9.7%, up from 7.6% the prior year.
- Teen (16-19) unemployment rose from 19.6 to 23.2%.
- Black male teenagers saw their unemployment rate go from 40.7% to 48.9%.

Yet, despite the recession, inflation for the year was still strong at 6.2%. Had the minimum wage been indexed, we would have been forced to raise it, notwithstanding that the economy had plummeted and unemployment was rising.

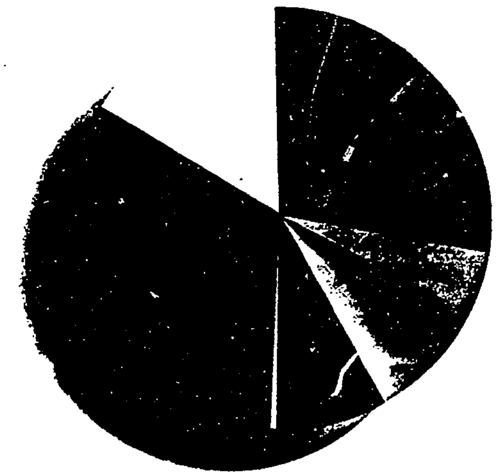


Table 3. **The Beneficiaries of a Minimum Wage Increase to $5.15**

- Worker Living with Parents: 32.7%
- Married Female Dual Earner: 16.3%
- Single Female: 12.6%
- Single Male: 9.3%
- Married Male Dual Earner: 6.2%
- Other Relative: 4.9%
- Married Male Sole Earner: 5.0%
- Single Mother: 4.4%
- Married Female Sole Earner: 3.8%
- Related Sub-Family Member: 3.7%
- Unrelated Sub-Family Member: 0.8%
- Single Father: 0.4%

The Minimum Wage and Welfare Reform

What types of jobs do people take when leaving welfare?

Mostly entry-level jobs: a majority of jobs taken after a period of benefits receipt are found in either retail trade (36%) or services (32%). This is no surprise given the extended periods of time during which most welfare recipients receive benefits: 65% of those receiving benefits from the Aid to Families with Dependent Children (AFDC) program spend at least eight years on the welfare rolls. There is limited labor-force participation during spells of benefit receipt: less than 7% of recipients work at all in a year and only 2.5% work full time. With this very limited attachment to the work force and low experience level, entry-level jobs often represent the only opportunities for which welfare recipients are qualified.

Can entry-level wages replace welfare benefits?

In many cases, yes. Although many entry-level jobs pay relatively low wages, significant subsidies are already in place which specifically target low income families. By 1996 the Earned Income Tax Credit (EITC) will be worth as much as $3,375 a year in added income, equivalent to an additional $1.69 an hour. Because of the EITC, a single parent leaving welfare will earn more than many others working in similar jobs.

The benefits of the EITC are much more heavily targeted on low income families than are minimum wage hikes. Only 31% of the last minimum wage increase went to poor and near-poor households, compared to 66% of the last increase in the EITC.

Will those leaving welfare for entry-level jobs require permanent income support?

Numerous studies have shown that the earnings of those who begin work in entry-level jobs catch up rapidly.

Even those who begin their work histories in the hospitality industry—the proverbial "burger flippers"—show such robust earnings growth over time that they effectively close the initial earnings gap with their peers who started working at higher wages. Workers first employed in food service prior to 1984—the group for which the most comprehensive data are available—enjoyed average earnings gains of more than 100% above their initial earnings by 1994, which raised their earnings to levels comparable to those of other workers.

Would raising the minimum wage help welfare recipients seeking work?

Evidence shows minimum wage hikes actually undermine welfare-to-work transitions. One study reports the effect of increases in the minimum wage enacted by various states in the late 1980s was to decrease the employment of welfare recipients. Mothers who faced increases in their state's minimum wage while receiving welfare were more likely to report no labor force participation: more than 50% of them stayed out of the labor market, compared to 40% of those who received AFDC and who lived in states that did not implement a minimum wage increase.

And welfare mothers in states that raised their minimum wages stayed on public assistance 44% longer than their counterparts in states where the minimum wage was unchanged. They simply

Welfare mothers in states that raised their minimum wage remained on public assistance 44% longer than their peers in states where the minimum wage remained unchanged.

Peter Brandon,
University of Wisconsin, 1995.

10

"The argument that forcing welfare recipients into the job market at low-skill, entry-level jobs dooms them to a lifetime of minimum wage earnings is a myth."

Houston Chronicle

could not compete with more "attractive" workers who are drawn into the applicant pool by the mandated higher wages.

Should the focus of welfare reform be on government training?

The history of federally funded training programs has been so dismal as to make them appear futile. While some programs have reported large percentage gains in earnings after training, they have not reported large dollar gains: earnings were so low to begin with that any increase registered as a large percentage increase. For example, although the California GAIN program reported a 17% increase in earnings for participants in the program, this gain translated into only $271 of additional annual income.[26]

Moreover, some programs have shown negative earnings effects from training: participants in the training programs showed lower earnings than those who did not participate. The Job Training Partnership Act actually reduced the earnings of young males.[27]

Do minimum wage workers receive training?

Training is an integral part of such jobs, since so many employees have little prior experience. A significant portion of these jobs includes lessons not usually thought of as training (e.g., working as part of a team, taking direction, or independent decision-making), but which are among the most important skills society has to offer.

In 1992, the Department of Labor issued a report identifying 11 "necessary skills" for the American work force. A subsequent survey of current and former employees of the hospitality industry revealed 80% of them found their employment in this sector useful in developing these skills needed in the labor market. More than 90% said their entry-level experience was "important" in helping them learn the following "necessary skills": how to get along with all kinds of people; communications; following directions; listening/understanding; and integrity/honesty. At least 80% said their jobs were useful in teaching responsibility, decision-making, and problem-solving. A significant majority said their entry-level jobs had taught them the necessary skill of being a self-starter and had helped them develop writing and arithmetic skills.[28]

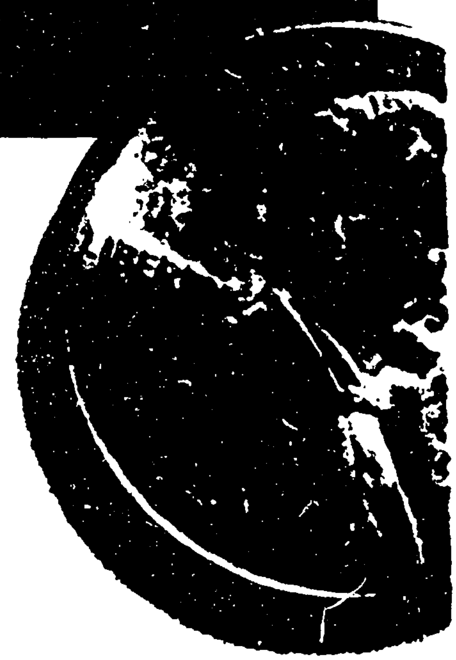
According to a 1988 Department of Labor report, "People use what they learned on one job to leverage a better job. Compared with all other variables that affect earnings, learning on the job has the most powerful effect."[29] Many new entrants in the labor market can only acquire such skills on the job. And until they acquire these skills, most of them earn the minimum wage.

What is the answer to low earnings?

As an alternative to federal training programs, consider the earnings growth that is known to take place in entry-level work. A study of non-college-bound youth[10] found that in their first four years after leaving high school, the wages of entry-level workers increased by 17% in real dollars. These findings are particularly important to the debate over welfare reform because more than 55% of welfare mothers have a high school degree.[11]

The earnings growth experienced by non-college-bound workers reflects increased skills they gained on the job. That increase in skills comes about because of either formal or informal training in the workplace—training that is often not recognized as such in the policy debates.

Minimum wage workers clearly benefit from skills learned on the job. Almost two-thirds of those earning the minimum wage in the mid-1980s were making more mon. . one year later.[12]



Mothers on welfare in states that raised their minimum wage left welfare for work 20% less often than welfare recipients in states where the minimum wage was not raised.

Peter Brandon,
University of Wisconsin, 1995.

III

The Minimum Wage and Job Loss

Do higher minimum wages lead to job loss?

It is well known by economists and lawmakers that a higher minimum wage leads to job losses. The Fair Labor Standards Act of 1938 cautioned the Administrator of the Wage and Hour Board to set minimum wages at a level "which will not substantially curtail employment."[11]

Employers naturally react to higher individual minimum wages by searching for ways to offset these higher costs. Increases encourage employers to automate functions or move more aggressively towards "self-service." This phenomenon has already been broadly experienced in banking and retailing.

Have economists changed their view on higher minimum wages?

Some recent work has alleged that increases in the minimum wage do not lead to job loss. However, this is far from a consensus position among economists. In a 1993 survey of American economists, 77% responded that minimum wage hikes lead to a decline in employment.

"[E]very time Washington widens the gap between $0.00 and its legislated minimum, people whose work skills are valued in between fall into that gap."

The Atlanta Journal

Did a study of fast food restaurants in New Jersey find no job loss as a result of higher minimum wages?

Widespread attention was paid to a 1994 study by two economists reporting that fast food restaurants in New Jersey showed no job loss, and possibly even job gains, after the state minimum wage rose to $5.05 in 1992.[14] This report was based on telephone survey data privately collected by the authors measuring employment in both New Jersey and eastern Pennsylvania. The survey on which these findings were based, however, was so flawed that the New Jersey report is valueless in assessing the impact of higher minimum wages.[15] For example, the survey asked on-duty managers of fast food restaurants their number of full and part time workers, yet never defined full time work and failed to identify the reference period (full time workers this shift? today? this pay period?). This resulted in wildly fluctuating responses that were not supported by the actual payroll records.

Other economists re-estimated the New Jersey fast food study using the correct numbers from payroll records. They found New Jersey suffered significant job losses from its higher minimum wage.[16]

Were other criticisms made of the New Jersey study?

Other recent research on minimum wages[17] found the full impact of a minimum wage increase is generally not felt for up to a year after the hike takes effect. The fast food research, which only allowed a few months for measuring the employment effects of higher mandated wages, did not assess the most critical employment impact—the long-term effect. Gary Becker, 1992 Nobel Prize winner in economics, has written that the fast food

After California raised its minimum wage in 1988, retail employment grew 14% slower than the nation, although the state's retail sales were growing at twice the national rate.

Lowell Taylor, Carnegie Mellon University, 1993.

studies "are fatally flawed and cannot justify going against the accumulated evidence from the many past and present studies that find sizable negative effects of higher minimums on employment."[18]

Did similar data problems exist in the Texas fast food study?

The Texas fast food study[19] was carried out by two economists, one of whom also worked on the New Jersey study. This study suffers from survey flaws of its own. Focusing on the 1992 increase in the federal minimum wage, the analysis allowed only four months in which to measure any employment change, far too short a time in which to measure effects.

Did a study find that California employment suffered no job loss from a higher minimum wage?

In 1992 economist David Card (one of the "New Jersey" authors) published a study[20] arguing California experienced no ill effects when it increased its minimum wage to $4.25 in 1988, well before the federal rate rose to that level. To reach this conclusion, Card compared changes in employment in California to changes in a small set of "control states." Finding that California's minimum wage work force grew at a rate similar to these other states (which did not increase wages), he argued employment in California was unaffected by the minimum wage hike.

However, California's economy was growing at least one-third faster than any of Card's "control states" and more than twice as fast as one of them. While California's economy grew at an 8.6% rate between 1988 and 1989, the 1992 Card study compares employment in California to the following states: Arizona, where the economy grew 4.8% over the same period; Florida, with a 6.6% growth rate; Georgia, with a 5.7% growth rate; and New Mexico, where the economy only grew 4.2% between 1988 and 1989. Given the booming California economy, it is no surprise Card failed to find a negative employment effect—he compared California to states experiencing far less economic growth.

"Any benefits to low-income workers (from higher minimum wages) do not outweigh the reduction in employment that results."

Have other recent studies found employment losses from higher minimum wages?

The strongest recent evidence on the effect of higher minimum wages is found in a 1993 study carried out by Lowell Taylor[11] of Carnegie Mellon University. In contrast to the fast food studies, Taylor's work included all workers in all sectors of retail trade, broken down into 64 industry sectors, analyzed on a county-by-county basis, over the course of a full year, in the nation's most populous state, California. (In addition to the fast food sector, Taylor's study examined table service restaurants, general merchandise stores, food stores, apparel shops, building supply retailers, furniture shops, and numerous other sectors, leading to a comprehensive assessment of employment in the entire retail industry.)

Taylor's work showed a significant depressing effect on job growth in retail trade following a minimum wage increase. Even though California's retail sales were growing at almost twice the national rate, the state's retail employment grew at a slower rate than the nation's as a whole.

Moreover, the most significant negative employment effects were found in low-wage counties—where workers should have been helped the most. In Sutter County, where the increase raised average wages by more than 9%, retail employment fell by more than 2%. In contrast, high-wage San Francisco County—where market-based wages were almost completely unaffected by the hike in minimum wages—experienced 8% growth in retail employment, despite having the same growth in retail sales as Sutter County.

Does the minimum wage affect employment other than through job loss?

A focus only on the levels of employment excludes an even more important feature: raising the minimum wage makes it harder for low-skilled adults to secure employment. Evidence shows that after a minimum wage increase, teens and students displace low-skilled adults in the work force.[12] In addition, higher minimum wages reduce the ability of welfare mothers to exit the welfare program via employment. Women receiving welfare in states that raised their minimum wages in the late 1980s worked 20% less than welfare mothers in states that did not increase their minimum wage.[13]

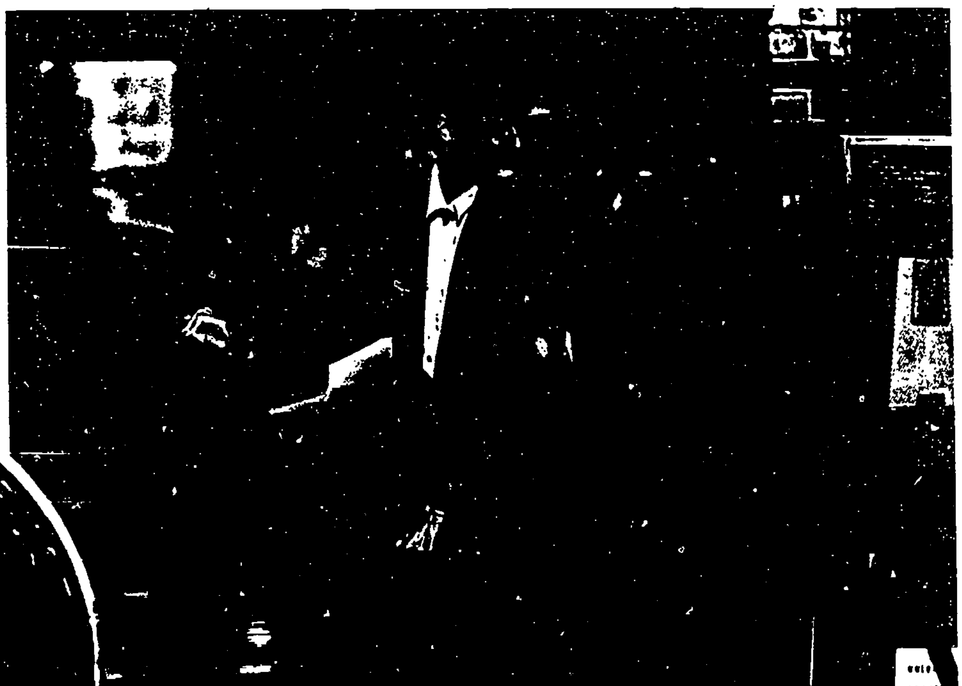
Is teenage employment affected by minimum wage increases?

A 1995 report from economists at the University of Chicago and Texas A&M University revealed significant reductions in teenage employment nationwide after the federal minimum wage increased in 1990-91. Employment of teenage males fell 5% after the wage hike, while employment of teen women fell 7%.[14]

Is there any historical evidence that increases in the minimum wage create unemployment?

Numerous studies over the past five decades have examined the impact of the minimum wage on employment. Opinions among economists vary as to the severity of the impact. Nonetheless, there is very little disagreement that the impact of minimum wage hikes on employment rises with the magnitude of the increase.

- In 1978, Congress created the Minimum Wage Study Commission to analyze the impact of the minimum wage on U.S. employment. The Commission determined every 10% increase in the minimum wage results in a 1% to 3% job loss for teenagers.[15]
- In 1983, the General Accounting Office found "virtually total agreement that employment is lower than it would have been if no minimum wage existed. This is the case even during periods of substantial economic growth."[16]
- A 1988 Congressional Budget Office (CBO) study found a proposal to increase the minimum wage to $5.05 would result in the loss of as many as 500,000 jobs.[17]
- In 1988, the Council of Economic Advisers estimated the job loss associated with a minimum wage of $4.65 (up from the 1988 wage of $3.35) would be concentrated among younger, less skilled, and minority workers.[18]
- A Brookings Institution study in the 1970s described the minimum wage as "far from the best way to redistribute income ... and [that] there are definite limits to how high the minimum wage can be raised. Usually the important limit is the disemployment effect."[19]



The most severe employment losses after California's 1988 minimum wage increase were felt in low-wage counties — the poorer areas of the state.

Lowell Taylor, Carnegie Mellon University, 1993.

Bibliography

Labor Market and Employment Effects of the Minimum Wage

BOSCHEN, John, and Herschel I. Grossman. "The Federal Minimum Wage, Employment and Inflation," in Report of the Minimum Wage Study Commission, Volume VI. Washington, D.C.: U.S. Government Printing Office.

BROWN, Charles. "Estimating the Effects of a Youth Differential on Teenagers and Adults," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

BROWN, Charles, Curtis Gilroy, and Andrew Kohen. "Employment Effects on the Minimum Wage in Low-Wage Sectors of the Economy," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

BROZEN, Yale. "Minimum Wage Rates and Household Workers," Journal of Law and Economics, April 1962.

CLARK, Kim, and Richard Freeman. "How Elastic is the Demand for Labor?" Review of Economics and Statistics, November 1980.

COLBERT, Marshall. "A Study of the Hypothesis that Minimum Wages are Intended to Affect the Distribution of Economic Activity," in Simon Rottenberg, ed., The Economics of Legal Minimum Wages. Washington, D.C.: American Enterprise Institute, 1981.

GRAMLICH, Edward M. "Impact of Minimum Wages on Other Wages, Employment, and Family Incomes," Brookings Papers on Economic Activity, #2, 1976.

HAMERMESH, Daniel S. "Employment Demand, the Minimum Wage, and Labor Cost," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

HASHIMOTO, Masanori. "Minimum Wage Effects on Training on the Job," American Economic Review, December 1982.

KOSTERS, Marvin, and Finis Welch. "The Effects of the Minimum Wage on the Distribution of Changes in Aggregate Employment," American Economic Review, June 1972.

LANG, Kevin (Boston University) "Minimum Wage Laws and the Distribution of Employment." Washington, DC: Employment Policies Institute Foundation, January 1995

LAZEAR, Edward P., and Frederick H. Miller. "Minimum Wage vs. Minimum Compensation," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

MCCAUSLAND, A. "The Ripple Effect in Minimum Wage Legislation," Atlantic Economic Journal, December 1979.

MINCER, Jacob. "Unemployment Effects of the Minimum Wages," Journal of Political Economy, August 1976.

NATHAN, Robert R. "The Impact of Increasing the Minimum Wage on Employment in Retailing," Washington, D.C.: Robert R. Nathan Associates, 1987.

NEUMARK, David (University of Pennsylvania). "Employment Effects of Minimum and Subminimum Wages: Recent Evidence," Washington, DC: Employment Policies Institute, February 1993.

NEUMARK, David, and William Wascher. "Evidence on Employment Effects of Minimum Wages and Subminimum Wage Laws," Industrial and Labor Relations Review, October 1992.

NEUMARK, David (Michigan State University), and William Wascher (Federal Reserve Board). "The Effects of New Jersey's Minimum Wage Increase on Fast Food Employment: A Re-Evaluation Using Payroll Records." Photocopied, March 1995.

PETERSON, John M., and Charles T. Stewart, Jr. "Employment Effects of Minimum Wage Rates," in Simon Rottenberg, ed., The Economics of Legal Minimum Wages. Washington, D.C.: American Enterprise Institute, 1981.

PETTENGIL, John S. "The Long-Run Impact of a Minimum Wage on Employment and the Wage Structure," in Report of the Minimum Wage Study Commission, Volume VI. Washington, D.C.: U.S. Government Printing Office.

SMITH, Ralph E., and Bruce Vavrichek. "The Wage Mobility of Minimum Wage Workers," Industrial and Labor Relations Review, October 1992.

TAYLOR, Lowell J (Carnegie Mellon University). "The Employment Effect in Retail Trade of a Minimum Wage. Evidence from California," Washington, DC Employment Policies Institute, June 1993.

ZUCKER, Albert. "Minimum Wage and the Demand for Low-Wage Labor," Quarterly Journal of Economics, May 1973.

Youth and the Minimum Wage

ADIE, Douglas. "The Lag in Effect of Minimum Wages on Teenage Unemployment," Proceedings of the Industrial Relations Research Association, 1971.

"Teenage Unemployment and Real Federal Minimum Wages," Journal of Political Economy, March-April 1973.

AL-SALAM, Nabeel, Aline Quester, and Finis Welch. "The Effects of Cohort Size and Minimum Wages on Youth Employment," in Simon Rottenberg, ed., The Economics of Legal Minimum Wages. Washington, D.C.: American Enterprise Institute, 1981.

BROWN, Charles. "Estimating the Effects of a Youth Differential on Teenagers and Adults," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

BROWN, Charles, Curtis Gilroy, and Andrew Kohen. "Effects of the Minimum Wage on Youth Employment and Unemployment," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

__________. "Effects of the Minimum Wage on the Labor Force Status of Youth," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

__________. "Time Series Evidence of the Effect of the Minimum Wage on Youth Employment," Journal of Human Resources, Winter, 1983.

BROZEN, Yale. "Effect of Statutory Minimum Wage Increases on Teenage Employment," Journal of Law and Economics, April 1969.

COTTERHILL, Phillip. "Differential Legal Minimum Wages," in Simon Rottenberg, ed., The Economics of Legal Minimum Wages. Washington, D.C.: American Enterprise Institute, 1981.

CUNNINGHAM, James. "The Impact of Minimum Wages on Youth Employment, Hours of Work, and School Attendance: Cross-Sectional Evidence from the 1960 and 1970 Censuses," in Simon Rottenberg, ed., The Economics of Legal Minimum Wages. Washington, D.C.: American Enterprise Institute, 1981.

FALLICK, Bruce (University of California-Los Angeles), and Janet Currie (Massachusetts Institute of Technology). "The Minimum Wage and the Employment of Teenagers. Recent Research." Washington, DC. Employment Policies Institute, June 1993

FREEMAN, Richard B., Wayne Gray, and Casey E. Ichniowski. "Low Cost Student Labor: The Use and Effects of the Subminimum Wage Provisions for Full-Time Students," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

HAMERMESH, Daniel S. "Employment Demand, the Minimum Wage, and Labor Costs," in Report of the Minimum Wage Study Commission, Volume V. Washington, D.C.: U.S. Government Printing Office.

HASHIMOTO, Masanori. "Minimum Wage Effects on Training on the Job," American Economic Review, December 1982.

KATZ, Arnold. "Teenage Employment Effects of State Minimum Wages," Journal of Human Resources, Spring, 1973.

MOORE, Thomas "The Effect of Minimum Wages on Teenage Unemployment Rates," Journal of Political Economy, July-August 1971.

RAGAN, James. "The Effect of a Legal Minimum Wage on the Pay and Employment of Teenage Students and Non-Students," in Simon Rottenberg, ed., The Economics of Legal Minimum Wages. Washington, D.C.: American Enterprise Institute, 1981.

WELCH, Finis, and James Cunningham. "Effects of Minimum Wages on the Level and Age Composition of Youth Employment," Review of Economics and Statistics, February 1978.

Macroeconomic Effects

BELL, Carolyn S. "Minimum Wages and Personal Income," in Simon Rottenberg, ed., The Economics of Legal Minimum Wages. Washington, D.C.: American Enterprise Institute, 1981.

BOSCHEN, John, and Herschel I. Grossman. "The Federal Minimum Wage, Employment and Inflation," in Report of the Minimum Wage Study Commission, Volume VI. Washington, D.C.: U.S. Government Printing Office.

Congressional Budget Office, Cost Estimate for H.R. 1834, March 25, 1988.

GRAMLICH, Edward M. "Impact of Minimum Wages on Other Wages, Employment, and Family Incomes," Brookings Papers on Economic Activity, #2, 1976.

LINNEMAN, Peter. "The Economic Impacts of Minimum Wage Laws: A New Look at an Old Question," Journal of Political Economy, June 1982.

MACPHERSON, David (University of Florida), and William Even (Miami University). "The Consequences of Indexing the Minimum Wage to Average Wages in the Economy," Washington, DC: Employment Policies Institute Foundation, May 1995.

MCCAUSLAND, A. "The Ripple Effect in Minimum Wage Legislation," Atlantic Economic Journal, Winter, 1979.

MINCER, Jacob, and Linda Leighton. "Effects of Minimum Wages on Human Capital Formation," National Bureau of Economic Research Working Paper No. 441.

PETTENGIL, John S. "The Long-Run Impact of a Minimum Wage on Employment and the Wage Structure," in Report of the Minimum Wage Study Commission, Volume VI. Washington, D.C.: U.S. Government Printing Office.

SELLEKAERTS, Brigitte. "Impact of Minimum Wage Legislation on Wage and Price Inflation," in Report of the Minimum Wage Study Commission, Volume VI. Washington, D.C.: U.S. Government Printing Office.

Staff Report of the Committee on Small Business, U.S. House of Representatives, February 1988.

STIGLER, George L. "The Economics of Minimum Wage Legislation," American Economic Review, June 1946.

"Unfortunately, many entry-level jobs are being phased out as employment costs grow faster than productivity. In that situation, employers are pressured to replace marginal employees with self-service or automation or to eliminate the service altogether. When these jobs disappear, where will young people and those with minimal skills get a start in learning the 'invisible curriculum' we all learn on the job?"

Former Senator George McGovern

TAUCHEN, George. "Some Evidence on Cross-Sector Effects of the Minimum Wage," Journal of Political Economy, June 1981.

"The Low-Wage Work Force," Washington, DC. Employment Policies Institute Foundation, December 1994

Poverty and Equity Issues

ADDISON, John T., and McKinley Blackburn (University of South Carolina at Columbia). "The Effect of Recent Increases in the U.S. Minimum Wage on the Distribution of Income," Washington, DC: Employment Policies Institute. March 1994.

BONILLA, Carlos. "Higher Wages, Greater Poverty. Trapping Americans in Poverty," Washington, D.C. Employment Policies Institute, 1992.

BRANDON, Peter (Institute for Research on Poverty, University of Wisconsin-Madison) "Jobs Taken by Mothers Moving from Welfare to Work and the Effects of Minimum Wages on this Transition," Washington, DC: Employment Policies Institute Foundation, February 1995.

BURKHAUSER, Richard V. (Syracuse University), and Andrew J. Glenn (Vanderbilt University) "Public Policies for the Working Poor: The Earned Income Tax Credit vs. Minimum Wage Legislation," Washington, DC: Employment Policies Institute, March 1994.

CANTO, Victor, and A.B. Laffer. A Supply-Side Solution to the Poverty Trap. LaJolla, California: A.B. Laffer, V.A. Canto & Associates, 1991.

JOHNSON, William, and Edgar Browning. "The Distributional Effects of Increasing the Minimum Wage: A Simulation," American Economic Review, March 1983.

AGLIN, Morton. "Poverty in the United States: A Reevaluation," Policy Review, 1978.

PARSONS, Donald O. Poverty and the Minimum Wage. Washington, D.C.: American Enterprise Institute, 1980.

SHAPIRO, Robert J. Work and Poverty: A Progressive View of the Minimum Wage and Earned Income Tax Credit. Washington, D.C.: Progressive Policy Institute, 1989.

Endnotes

1 "The Low-Wage Workforce," Washington, DC: Employment Policies Institute Foundation, December 1994.

2 MACPHERSON. David (University of Florida), and William Even (Miami University). "The Consequences of Indexing the Minimum Wage to Average Wages in the Economy," Washington, DC: Employment Policies Institute Foundation, May 1995.

3 Current Population Survey, March 1993, and Outgoing Rotation Groups (Employment Policies Institute Foundation analysis).

4 "The Low Wage Workforce," op. cit.

5 March 1993 Current Population Survey (Employment Policies Institute Foundation analysis).

6 BURKHAUSER, Richard V. (Syracuse University), and Andrew J. Glenn (Vanderbilt University). "Public Policies for the Working Poor: The Earned Income Tax Credit vs Minimum Wage Legislation," Washington, DC: Employment Policies Institute, March 1994.

7 "The Low-Wage Workforce," op. cit.

8 Memo to the President, July 20, 1993.

9 "Poverty in the United States: 1992," U.S. Department of Commerce, Table 2.

10 ADDISON, John T., and McKinley Blackburn (University of South Carolina at Columbia). "The Effect of Recent Increases in the U.S. Minimum Wage on the Distribution of Income," Washington, DC: Employment Policies Institute, March 1994.

11 BURKHAUSER, op. cit.

12 Interim report of the Administrator of the Wage and Hour Division for the period August 15 to December 31, 1938. U.S. Department of Labor, Washington D.C., January 1939.

13 New York Times, May 20, 1993.

14 LANG, Kevin (Boston University). "Minimum Wage Laws and the Distribution of Employment," Washington, DC: Employment Policies Institute Foundation, January 1995.

15 "The Low-Wage Workforce," op. cit.

16 MACPHERSON, op. cit.

17 ibid.

18 Daily Labor Report, Bureau of National Affairs, January 12, 1995.

19 BRANDON, Peter (Institute for Research on Poverty, University of Wisconsin-Madison). "Jobs Taken by Mothers Moving from Welfare to Work and the Effects of Minimum Wages on this Transition," Washington, DC: Employment Policies Institute Foundation, February 1995.

20 1992 Green Book, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C., p.685.

21 ibid. p. 671.

22 BURKHAUSER, op. cit.

23 See Jeff Grogger, (University of California, Santa Barbara),"The Early Careers of Non-College-Bound Men," Washington, DC: Employment Policies Institute, May 1994; and Frederick Tannery, (University of Pittsburgh), "Earnings Growth and Employment Stability of Workforce Entrants," Washington, DC: Employment Policies Institute Foundation, April 1995.

24 TANNERY, op cit.

25 BRANDON, op. cit. (The divergence in labor force participation rates between the two groups is not explained by differences in disability status, marital status, or subsequent births.)

26 Manpower Demonstration Research Corporation, GAIN: Program Strategies, Participation Patterns, and First Year Impacts in Six Counties, May 1992.

27 The National JTPA Study: Title II-A Impacts on Earnings and Employment at 18 Months, Abt Associates, January 1993.

28 Frederick/Schneiders, Inc. "Survey of Service Employees," Washington, DC: Employment Policies Institute, February 1992.

29 CARNEVALE, Anthony, Leila Gainer, and Ann Meltzer. Workplace Basics: The Skills Employers Want, American Society for Training and Development/U.S. Department of Labor, Employment & Training Administration, October 1988.

30 GROGGER, op cit.

The Employment Policies Institute Foundation is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPIF research focuses on issues that affect entry-level employment. Among other issues, EPIF research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPIF commissions non-partisan research which is conducted by independent economists at major universities around the country.

31 U.S. Census Bureau, 1995.

32 SMITH, Ralph, and Bruce Vavrichek. "The Wage Mobility of Minimum Wage Workers," Industrial and Labor Relations Review October 1992.

33 Fair Labor Standards Act of 1938, Section 8(b).

34 CARD, David, and Alan B. Krueger "Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania," The American Economic Review, September 1994

35 Using payroll records supplied by restaurant franchisees, the Employment Policies Institute Foundation was able to match the employment changes reported in the survey with actual employment records. The payroll records showed that the New Jersey fast food study was based on data that bore little resemblance to actual experience. These flaws in the data apparently resulted from serious shortcomings in the data collection process.

36 NEUMARK, David (Michigan State University), and William Wascher (Federal Reserve Board). "The Effects of New Jersey's Minimum Wage Increase on Fast Food Employment: A Re-Evaluation Using Payroll Records," Photocopied, March 1995.

37 NEUMARK, David. "Employment Effects of Minimum and Subminimum Wages: Recent Evidence," Washington, DC. Employment Policies Institute, February 1993.

38 BECKER, Gary S. "It's Simple: Hike the Minimum Wage, and You Put People Out of Work," Business Week, March 6, 1995.

39 KATZ, Lawrence, and Alan Krueger "The Effect of the Minimum Wage on the Fast Food Industry," Industrial and Labor Relations Review, October 1992

40 CARD, David. "Do Minimum Wages Reduce Employment? A Case Study of California, 1987-1989," Industrial and Labor Relations Review, October 1992

41 TAYLOR, Lowell (Carnegie Mellon University). "The Employment Effect in Retail Trade of a Minimum Wage: Evidence from California," Washington, DC: Employment Policies Institute, June 1993. An expanded version of this paper appeared in The Journal of Economic and Business Statistics, April 1995.

42 LANG, op cit.

43 BRANDON, op cit.

44 DEERE, Donald, Kevin Murphy, and Finis Welch. "Employment and the 1990/91 Minimum Wage Hike," paper presented at the 1995 American Economics Association Meetings.

45 Report of the Minimum Wage Study Commission. Washington, D.C.: U S Government Printing Office.

46 U.S. General Accounting Office, "Minimum Wage Policy Questions Persist," report to the U.S. Senate Committee on Labor and Human Resources, 1983.

47 Congressional Budget Office, Cost Estimate for H.R. 1834. Washington, D C., March 25, 1988.

48 SPRINKEL, Beryl W., Chairman, Council of Economic Advisers, letter to Representative Thomas E. Petri, May 13, 1988.

49 GRAMLICH, Edward M. "Impact of Minimum Wages on Other Wages, Employment, and Family Incomes," Brookings Papers on Economic Activity, #2, 1976.

Employment Policies
Institute Foundation
Suite 1110
607 Fourteenth Street, NW
Washington, DC 20005

202.347.5178

"People who lack the capacity to earn a decent living need to be helped, but they will not be helped by minimum wage laws."

James Tobin
1981 Nobel Laureate, Economics