



# ★ WASHINGTON WATCH ★

An update on federal action from

## The Center for Public Policy Priorities

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### THE MINIMUM WAGE DEBATE

A campaign to raise the federal minimum wage for the first time since 1989 has taken off in the past few weeks. President Clinton proposed to increase the minimum wage from the current \$4.25 per hour to \$5.15 per hour in two annual 45-cent increases now has the support of a majority of the U.S. Senate (including 8 Republicans) and a growing number of Representatives. Senate Majority Leader Dole and House Speaker Gingrich have said they could support an increase, but only if it were linked to other provisions they want passed, such as labor law changes or tax reforms. Other Republicans have proposed raising the pay of low-wage workers with children through government subsidies, funded by eliminating the Earned Income Tax Credit for workers without children. Democratic leaders are asking for a "clean vote" on an increase, uncomplicated by amendments.

#### **Why raise the minimum wage?**

A higher minimum wage is one response to the squeeze on family incomes now receiving so much media attention. For the vast majority of workers, this squeeze is the result of the continuing failure of wages to keep up with inflation and the dramatic growth in the wage gap between high-wage workers and those earning middle or low wages. Raising the minimum wage is intended to improve the incomes of low- and lower-middle income working families. A higher minimum wage would also help "make work pay" as welfare recipients are shifted into jobs.

Here are a few statistics generally accepted by all sides:

- 9.7 million workers nationally would benefit from the proposed increase — 2 million who earn the current legal minimum, plus another 7.7 million who now earn more than \$4.25 but less than \$5.15.
- Almost half (47 percent) of those who would benefit would be full-time workers; another one-third work between 20 and 35 hours a week.
- Minimum-wage earners are disproportionately black (15 percent) or Hispanic (14 percent) and are concentrated in the retail sector (44 percent).

- The increase would affect more than teenagers: 69 percent of affected workers would be age 20 or older; 47 percent would be 25 or above.
- Nearly 60 percent of those who would earn the minimum wage under the plan would be women.

#### **Lowest-income families would benefit**

One argument is over how many of those likely to gain from an increase are the sole breadwinners for their families as opposed to how many are students or young single persons who might be receiving support from their parents. Opponents claim that much of the benefit would go to members of families already in the top half of the income scale.

A recent study by the Economic Policy Institute found minimum-wage earners are concentrated in families with the lowest earnings. Over half of all minimum-wage earners are in the poorest 20 percent of families (earning less than \$18,720 a year) and the vast majority are in the lower 60 percent of families. The study also found that minimum-wage workers are important contributors to their family's economic well-being; those who would benefit from the Clinton proposal contribute the majority of their family's total weekly earnings. Only 11.7 percent of the beneficiaries of a higher minimum wage are teenagers in families with above-average incomes.

#### **Unemployment would not increase**

Opponents of a higher minimum wage also say it would increase unemployment among teenagers, especially the least skilled. But one frequently cited study of teen employment in fast food restaurants in New Jersey, following an increase in the state minimum wage in 1992, found no significant change. Studies of prior hikes in federal and state minimum wages reached the same conclusion. A higher minimum wage also can make it easier for employers to fill vacancies and may decrease employee turnover. Labor Secretary Robert Reich says any job impact would be "negligible."

#### **Necessary to catch up with inflation**

While there are obvious benefits to a higher minimum wage, the proposed increase should be considered only an interim step. Raising the minimum wage to \$5.15

an hour in 1997 would still not fully restore the purchasing power lost to inflation over the years. In order to equal the value of the minimum wage of the 1970s, the minimum wage would have to increase to \$6.07 by 1997, nearly \$1 an hour higher than the proposed level.

To look at it another way, the earnings of a full-time minimum wage worker employed for the entire year during the 1960s and 1970s was enough to lift a family of three out of poverty. In 1996, current full-time minimum wage earnings fall 29 percent below the estimated poverty line for a family of three.

In some cities, "living wage" campaigns have attempted to correct this shortfall by requiring all businesses that win a contract with city government to pay a higher

minimum wage. A successful campaign in Baltimore by community organizations and labor unions requires city contractors to pay at least \$7.70 an hour by 1999 — enough for a full-time worker to support a family of four at or above the poverty line. A similar campaign is being introduced in Houston and a dozen other cities nationwide.

More information on the minimum wage is available on the Internet:  
Center on Budget and Policy Priorities, "Assessing a \$5.15-an-hour Minimum Wage."  
[<http://epn.org/cbpp/cbwage.html>]  
Economic Policy Institute, "Who Wins with a Higher Minimum Wage." [<http://epn.org/epi/epminw.html>]

## WELFARE PAYS?

Last September, the Cato Institute, a conservative think tank, released a study that made the inflammatory claim that welfare families received benefits that were more generous than most low-wage jobs. The study claimed that in 40 states welfare "paid" more than an \$8.00 per hour job, and in 17 states was worth more than a \$10.00 per hour job. The report stated that encouraging welfare recipients to enter the job market could not be achieved by increasing the wages of entry-level workers because "attempts to mandate wage increases, such as minimum-wage legislation, result chiefly in increased unemployment." This assertion flies in the face of a recent statement by 101 leading economists supporting an increase in the minimum wage. Still, the Cato authors concluded that "If Congress or state governments are serious about reducing hard-core welfare dependence and rewarding work, the most promising reform is to cut benefits substantially."

The report was used across the country as "proof" that welfare families had no desire or motivation to work and were living at the expense of hardworking families. Several governors have cited the report specifically in recommending large cuts to welfare benefits. In Texas, David Hartman (an Austin, Texas banker listed as one of the authors of the Cato report) used the report's findings to back his recommendations to reduce Texas' already-meager benefits as part of the "Compact with Texas" developed for the Texas Republican Party.

**The Cato report was wrong.** A carefully researched analysis by the Center on Budget and Policy Priorities has identified substantial and fundamental inaccuracies in the report. For example, in calculating the value of an "average" AFDC family's benefits, Cato assumed that **all** such families get housing subsidies, but in

reality only 25% do. Similarly, the study assumed that **all** children in AFDC families get WIC benefits, when less than 20% do. It incorrectly measures – and overstates – the value of other forms of assistance such as food stamps, low-income energy assistance, and WIC. Cato also distorts the income comparison between AFDC families and low-income working families by counting the very same benefit as income for one family type, but not counting it for the other. Though Medicaid and food stamps are treated as income to AFDC families, in tallying up the "income" of low-income working families, Cato does **not** count the cash value of their food stamps, Medicaid, or employer-sponsored health insurance.

These are only the most egregious errors, but the report is replete with such flaws. Use of this study in Texas is especially dishonest, since the maximum welfare payment to a family of three remains less than \$2,300 a year, and access to housing assistance is limited by years-long waiting lists. A *New York Times* columnist suggested that "it is difficult to avoid the conclusion that the errors and distortions in the Cato report were deliberate." The *Times* went on to say that "the Cato study was especially insidious in that it used poison data to pit two groups that are not doing well – welfare recipients and the working poor – against each other. The Cato study was a travesty, an exercise in bad faith disguised as serious research. For politicians to continue to rely on its discredited findings would be an even bigger travesty." (NYT, 4/22/96)

For a copy of the Center on Budget and Policy Priorities report contact them directly at 202-408-1080 or see their Web page (address above).

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