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BUILDING A FOUNDATION OF FAIRNESS: 75 YEARS OF THE FEDERAL MINIMUM WAGE

HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

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FIRST SESSION

ON

EXAMINING 75 YEARS OF THE FEDERAL MINIMUM WAGE

JUNE 25, 2013

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BUILDING A FOUNDATION OF FAIRNESS: 75 YEARS OF THE FEDERAL MINIMUM WAGE

TUESDAY, JUNE 25, 2013

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 2:58 p.m., in room SD–430, Dirksen Senate Office Building, Hon. Tom Harkin, chairman of the committee, presiding.

Present: Senators Harkin, Murray, Sanders, Casey, Murphy, Warren, and Alexander.

OPENING STATEMENT OF SENATOR HARKIN

The CHAIRMAN. The Senate Committee on Health, Education, Labor, and Pensions will please come to order.

Today marks the 75th anniversary of the signing of the Fair Labor Standards Act by President Franklin Roosevelt on June 25, 1938. The FLSA, as it's known, was a landmark achievement. After years of struggle, this national law set a floor on wages, limited working hours by requiring overtime pay, and set out to eliminate child labor.

It was born out of the Great Depression, a time of falling wages, falling consumption, widespread unemployment, and pervasive poverty and hunger. President Roosevelt and minimum wage proponents of the time knew that a fair minimum wage was a critical way to reverse these trends, to end the exploitation of workers, to reduce dependence on charity and public assistance, and to raise wages and consumption to help the economy.

Upon signing the Fair Labor Standards Act, President Roosevelt said,

> "Except perhaps for the Social Security Act, it is the most far-reaching and most far-sighted program for the benefit of workers ever adopted here or in any other country."

The arguments against a minimum wage then were the same that we hear today, that it would harm the economy, that it would hurt people it was meant to help, that it was antithetical to liberty and freedom.

One opponent from the National Publishers Association declared that the impacts of a minimum wage would be akin to the fall of Rome, and that the inevitable result would be distress, misery, and despair. A House member, Representative Dewey Short of Missouri, similarly predicted economic catastrophe saying,

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> "This bill will squeeze the little businessman out of existence, encourage and foster monopoly, increase the cost of living to the consumer, and make it impossible for the farmers to employ labor while destroying much of the domestic market for his products."

President Roosevelt had a strong response to these critics. He said,

> "Do not let any calamity-howling executive with an income of $1,000 a day, who has been turning his employees over to the government relief rolls in order to preserve his company's undistributed reserves, tell you that a wage of $11 a week is going to have a disastrous effect on all of American industry."

We know that President Roosevelt was right, and the economic catastrophes predicted did not come to pass. Indeed, for decades after its passage, the minimum wage was an accepted and lauded national policy. President Eisenhower proposed a raise himself. Every president since FDR, except for two, President Ford, who just had a short term, and President Reagan—every president has signed an increase to the minimum wage. Until recently, the debate has always been about how much to raise the minimum wage, not whether to raise it at all.

The protections of the minimum wage have also been expanded over the years, covering more and more occupations. Today, the FLSA covers 90 percent of the workforce. Interestingly, while the law originally exempted occupations that were disproportionately held by women and people of color, today, these very workers disproportionately benefit from raises in the minimum wage.

History shows us the important role that the minimum wage plays as a national standard in our economy. For decades, it was strong, setting a fair foundation for our economy. It lifted families out of poverty, reduced inequality, and kept low-wage workers' wages in line with average wages.

But as we celebrate the minimum wage today, we must also recognize that it is no longer achieving its potential benefits for many workers or our economy. Unfortunately, over the past several decades, the minimum wage has not kept up as the rest of the economy has moved forward. Today, the minimum wage has one-third less buying power than it did in 1968, one-third less.

Workers today cannot afford to live on the minimum wage, let alone support a family. The wage today is $7.25 an hour. That means about $15,000 a year for full-time, year-round work. Families with full-time minimum wage breadwinners fall nearly 20 percent below the poverty line. I've said many times that in a nation as rich as ours, no one who works for a living and puts in a full day's work should have to live in poverty, be unable to put food on the table, pay their bills, keep up with the rent.

We understood this fundamental, moral truth in the past, but somehow we seem to have forgotten it. That's why I've introduced the Fair Minimum Wage Act of 2013 to raise the minimum wage to $10.10 per hour in three steps and then to index the minimum wage to inflation. This modest increase, which is well-aligned with the previous increases throughout history, will give 30 million

Americans a higher paycheck, including the parents of 18 million children.

Again, we're fortunate today to have with us in the audience, I am told, a group of workers who will directly benefit from a minimum wage increase. I understand that many were at the White House this morning, celebrating the FLSA and discussing the need to raise the minimum wage. I'm pleased that you could all be with us this afternoon, and I thank you for coming.

Of course, we're also pleased to have a distinguished panel of witnesses, including our Acting Secretary of Labor, Seth Harris. Today's panelists will discuss the past, present, and future of the minimum wage and the role that it plays for workers and businesses and in our economy. I look forward to this discussion.

I will hold the record open for an opening statement by Senator Alexander. We were supposed to have a vote at 2:30. It didn't happen until a quarter to three, that's why a lot of people are late getting here.

We have two panels. On the first panel, we welcome Seth Harris, Acting Secretary of the Department of Labor. Prior to his nomination as Deputy Secretary in 2009, Mr. Harris served as a professor of law at New York Law School, where he was director of the school's Labor and Employment Law programs.

Mr. Harris served for 7 years at the Department of Labor during the Clinton administration, as counselor to the Secretary of Labor, and as Acting Assistant Secretary of Labor for Policy, among other positions. Mr. Harris is a graduate of Cornell University and the New York University Law School, where he was editor-in-chief of the Review of Law and Social Change.

Mr. Harris, welcome again, and as with all the panelists, your statement will be made a part of the record. Please proceed as you so desire.

STATEMENT OF HON. SETH D. HARRIS, ACTING SECRETARY, DEPARTMENT OF LABOR, WASHINGTON, DC

Secretary HARRIS. Thank you so much, Mr. Chairman, Senator Warren, and other members of the committee. Thank you for the opportunity to testify about the urgency of raising the Federal minimum wage. And let me say, Mr. Chairman, thank you so much for your outstanding leadership over the many years on this very important issue.

As you said, Mr. Chairman, just a few hours ago, I was at the White House with Vice President Biden for celebration of the 75th anniversary of the Fair Labor Standards Act. The FLSA established the first national minimum wage when it was signed into law by President Franklin Roosevelt on this day in 1938.

As you said, joining us at the White House were the men and women you see sitting behind me, over my left shoulder, workers from around the country who are struggling to get by on the minimum wage or just a little more. They work hard. They take responsibility for themselves and their families. They are not asking for a handout. They merely ask for an honest day's pay in return for an honest day's work.

Since February, I've traveled to 14 cities, to Baltimore and Charlotte, to Philadelphia and Atlanta, to Milwaukee and Boston, to

Phoenix and Las Vegas, meeting with many of these workers and hundreds more like them, workers like Kizzie Simmons, a college-educated, State-tested nursing assistant from Cleveland with three children. Her oldest daughter has been accepted to the University of Cincinnati, but Kizzie doesn't know if she can afford to give her child this opportunity.

She asked me, "How am I supposed to tell my daughter, 'Honey, I may not be able to make your tuition payment.'?" And on top of that stress, when I met her in Cleveland, Kizzie's landlord had just raised her rent by $300.

The CHAIRMAN. Say that name again, Seth. Kizzie?

Secretary HARRIS. Kizzie Simmons.

The CHAIRMAN. Where is Kizzie?

Secretary HARRIS. Right here.

The CHAIRMAN. Welcome.

Secretary HARRIS. Now, sitting right next to Kizzie is Pattie Federico, who lives in Boston, Senator Warren, and she earns barely above the minimum wage at a local movie theater. When I met her, she was living in a freezing home because she had to wait for the next week's paycheck before she could fix a broken nozzle on her furnace.

When I met Pattie, I made the mistake of characterizing her as living paycheck to paycheck, and she told me I was wrong. Living paycheck to paycheck would be an improvement, she explained. She's doing everything possible not to fall further behind.

This morning at the White House, Pattie talked about living in constant fear of losing her family home, about the new tires for her car that she needs but can't afford, about feeling like the walls are closing in, about how even an unforeseen $10 expense can be crippling.

These powerful and poignant stories are the most compelling argument for a minimum wage increase. As President Obama said in his State of the Union address, quoting him, "In the wealthiest nation on earth, no one who works full-time should have to live in poverty." The President has proposed increasing the Federal minimum wage from $7.25 to $9 an hour. For these workers and some 15 million others, that would mean higher earnings, the ability to buy basic necessities, and greater peace of mind.

The President's plan, like the bill introduced by you, Senator Harkin, and Representative Miller, would also index the Federal minimum wage to inflation for the first time ever. Inflation has steadily eroded the value of the minimum wage, as you said, Senator, by 30 percent since 1968. By linking wages to the cost of living, Congress can make sure workers' wages keep pace as prices go up at the grocery store, the gas pump, and everywhere else.

Raising the minimum wage won't merely help Kizzie and Pattie and millions more like them. It will strengthen our economic recovery. When working families have more money in their pockets, they pump it right back into their local economies. The small business owners I've met support a higher minimum wage because they know it means more people have more to spend on goods and services, and that, of course, helps their businesses to grow.

There is a persistent myth out there that a higher minimum wage will trigger mass layoffs and have a devastating impact on our economy. Senator Harkin, as you said, quoting President Roosevelt, the purveyors of that myth are calamity-howlers. The jobless rate was a staggering 19 percent in 1938. Congress passed the Fair Labor Standards Act, President Roosevelt signed it, and employment went up. It increased.

Since then, Congress has acted on nine occasions, generally with bipartisan support, to raise the minimum wage 22 times, and the calamity-howlers' doomsday scenarios never came to pass. In fact, study after study from independent economists has found that a higher minimum wage has little to no negative effect on employment. And, over time, real GDP per capita has steadily increased, even when the minimum wage has been raised.

So let's do more than commemorate the past. Let's assure a better future for Kizzie Simmons' daughter, who wants a college education; for Pattie Federico, who deserves a chance at the American dream. Let's smooth the path to the middle class by renewing the promise of the FLSA and raising the minimum wage.

Again, Mr. Chairman, I want to congratulate you and applaud you and Congressman Miller in the House for getting this debate started. The President stands ready to work with you and with all the members of this committee and the Members of Congress to get this important work done.

Thank you again. I look forward to answering your questions.

[The prepared statement of Secretary Harris follows:]

PREPARED STATEMENT OF HON. SETH D. HARRIS

Good afternoon Chairman Harkin, Ranking Member Alexander, and members of the committee. Thank you for the invitation to testify at this hearing on the importance of raising the minimum wage to strengthen the middle class and grow our economy. On behalf of the Obama administration, I thank you for getting this important conversation started in Congress.

The timing of this hearing could not be more appropriate. Today marks the 75th Anniversary of the Fair Labor Standards Act (FLSA), legislation enacted to ensure "the most minimum standard of living necessary for the health, efficiency, and general well-being of workers." Although the FLSA includes a number of basic wage and hour standards affecting employees in the private and public sectors, the national minimum wage may be its best known contribution to economic fairness. As the agency charged by Congress to administer and enforce the FLSA, the Labor Department is uniquely equipped to attest to the public benefit of raising the minimum wage and the urgency of working together to ensure that it provides a basic level of economic security for our Nation's workers.

The FLSA was enacted in 1938—in the midst of the Great Depression, and with unemployment at a staggering 19 percent. Even in these challenging economic conditions, Congress recognized the critical need to establish minimum wage and overtime compensation for America's workers and to level the competitive playing field for their employers. As the President said in the State of the Union, no one working full-time in the richest country on the planet should have to live their life in poverty. It does violence to our values and harms our economy as a whole. Raising the minimum wage will help to meet this fundamental American promise.

In addition to being necessary for the well-being of workers and their families, the minimum wage is also essential to a healthy economy. Nearly 70 percent of the American economy is built on consumer spending. And when you hear consumer, you should think of working families. A higher minimum wage will give low-wage workers the additional purchasing power to buy goods and services in their communities thereby stimulating local economies and helping small businesses to grow and expand. A 2011 study by economists at the Federal Reserve Bank of Chicago found that a $1 minimum wage hike increases household spending by approximately $2,800 in the year following the increase—with families purchasing necessary durable goods like automobiles that provide their communities with a real economic stimulus.

Last week, I had the opportunity to speak with a group of small business owners from the Washington region, each of whom pays their employees more than the current minimum wage. Their anecdotes confirmed that many small business owners favor increasing the minimum wage. Small business owners understand that raising the minimum wage is good for the economy and good for their businesses, as well as being the right thing to do.

With the passage of FLSA, the first minimum wage was set at 25 cents per hour. Since that time, the minimum wage has been raised 22 times. Most recently, the 2007 amendments to the FLSA called for an increase phased in over 3 years, bringing it in 2009 to its current $7.25 per hour. Unfortunately, for workers who earn most of their wages through tips the wage their employers are required to pay them has not been raised since 1991—that is 22 long years ago. Needless to say, it is time to raise the minimum wage again.

Over the past 30 years, modest minimum wage increases have not kept pace with the higher costs of basic necessities for working families—everything from a gallon of milk to a gallon of gas. This trend isn't new—the real value of the minimum wage has steadily decreased since the early 1980s. In fact, the minimum wage has fallen 30 percent in value since 1968. While the wealthiest Americans have seen their incomes rise dramatically in the last three decades, middle class and minimum wages have stagnated, leaving too many families struggling to stay, or get into, the middle class. In the words of President Franklin Roosevelt:

> "The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those that have too little."

There are two myths about the minimum wage that I would like to dispel. Many of these arguments have been heard time and again over the decades as proposals were offered to raise the minimum wage. The first is that raising the minimum wage will suppress employment or lead to layoffs. But study after study from independent economists has shown that raising the minimum wage has a small or no effect on employment. A second myth holds that the typical minimum wage worker is a middle-class teenager earning weekend spending money. In fact, only around 19 percent of those earning between $7.25 and $9.00 per hour are teenagers. Sixty percent are working women, many of whom are raising children.

Contrary to popular belief, many minimum wage workers are adults supporting families and heading households. In 2011, minimum wage workers brought home 46 percent of their household's income. Their wages pay for utility bills, car maintenance, and rent. They are parents struggling as hard as they can to provide a better life for their children. They are under enormous stress, often facing wrenching choices about which bills to skip each month, or whether to fix the heat in the dead of winter, or fix the car they need to get to work. They know what it's like to clip coupons and say "no" to their children, to be late with the bills and hope that their electricity won't be shut off. They know what it's like to live just one small setback away from personal disaster.

For the past 4 months, I've been traveling around the country talking with workers who have an important stake in President Obama's proposal to raise the Federal minimum wage from $7.25 per hour to $9 per hour. I've been to 14 cities, from Philadelphia to Phoenix, from Akron to Atlanta. At every stop, I heard stories of extraordinary struggle and sacrifice.

- In Boston I met Pattie, a woman who earns just above the minimum wage working at a local movie theater. And she needs every penny. Like many Americans, she struggles to make ends meet, but Pattie constantly feels like she is falling even further behind. When I spoke with her, I made the mistake of classifying her as someone who lives paycheck-to-paycheck. She corrected me, pointing out that living paycheck-to-paycheck would mark a significant improvement in her life. Every day she wonders, do I have enough money to fill my car with gas to get to work? If my car breaks down, do I skip this month's heating bill to pay for the necessary repairs?
- I met Tanvanel in Orlando. He is 35 years old and has a wife and four children. Tanvanel reports that it's simply impossible to support his family on his full-time minimum wage salary working at Wendy's. "It's very difficult to pay for health insurance for my family," he said. "I can't afford a car, and even if I could, I couldn't pay for the gas or the necessary insurance."
- While in Tampa, I met Grace. She is a single mother whose husband died several years ago. She has a young daughter with a disability, and is often forced to choose between going to her daughter's school to meet with her teachers and ensure she has an effective education plan and keeping hours at work. "Sometimes," says Grace, "for dinner, I can only afford a hamburger from McDonald's and some water. I give my daughter the meat and the water, and I just eat the bun."

• During my trip to Cleveland I met Kizzie, a State-tested nursing assistant. She's a mother of three. Her daughter has been accepted to the University of Cincinnati, but Kizzie worries about whether she can afford it. "How am I supposed to tell my daughter that I'm not going to make the tuition payment," she asked. On top of it all, Kizzie's landlord raised her rent $300 per month this year. "I come to work sometimes broken, but you would never know," she said. "I don't show it."

I heard stories like these in every city I've visited. These workers have enormous pride and dignity. They don't want hand-outs. They simply want an honest day's pay for an honest day's work.

More take-home pay for these workers will provide a boost to our entire economy. The President has called for a raise in the minimum wage to $9.00 per hour, which would boost the earnings of about 15 million low-wage workers across the country and restore the minimum wage to its early-1980s real value. The President has also proposed indexing the minimum wage to inflation, so future workers do not see their earnings eroded by cost-of-living increases. Increasing the minimum wage and the purchasing power of low-wage families will help bolster the middle class and strengthen our economic recovery.

The minimum wage is as important today as it was in 1938. Yet the wage floor it creates is in danger of falling so low that it no longer provides a basic level of economic security for our Nation's working families. Laws like the FLSA recognize the value and dignity of all work, providing working people the means to support and nurture strong families. It is an affirmation of these American values that the FLSA and its minimum wage requirement have stood the test of time, despite all of the changes that have taken place over the past 75 years. Evidence of our shared commitment to this responsibility is the fact that minimum wage increases have historically garnered bipartisan support in Congress and been signed by Democratic and Republican presidents alike. It is our responsibility to strengthen the FLSA and sustain its promise over the next 75 years.

In a nation as wealthy as ours, far too many full-time workers are living below the poverty line. Minimum wage workers drive our kids to school; serve our food; provide care to our parents, young children and people with disabilities. The President believes they should earn enough to support their families and live a decent life. Raising the minimum wage is good for workers, their families, and for our economy. It would give hard-working people the raise they need and deserve. He applauds Senator Harkin, as well as Representative Miller, for getting this debate started in Congress. He stands ready to work with Congress to pass legislation to increase the minimum wage as soon as possible.

Thank you again for the opportunity to testify today. I am happy to answer your questions.

The CHAIRMAN. Thank you very much, Mr. Secretary. And, again, I thank you for your great leadership of the department now and in the past and for your commitment to the kind of economic and social justice that we've fallen behind on in this country. I really appreciate your leadership.

We'll begin a round of questions, 5 minutes each. Here's one. I was just thinking about this the other day. In looking at the history of the passage, my staff found a lot of business opposition to the bill, but they found a lot of business support. In the last year or so, we've seen several business firms come out in favor of raising the minimum wage—Costco, Starbucks, several associations of thousands of small businesses, business publications like *The Economist, Crain's New York Business, Bloomberg News*.

Why are an increasing number of business voices now coming out wanting to raise the minimum wage? Do you think that would not be in their best interest? I don't know.

Secretary HARRIS. I'll venture a guess, and tell you what I've heard from small business owners, in particular, two reasons. One is more money in consumers' pockets means more money for business. Seventy percent of the American economy is built on consumer demand. Consumers, these folks sitting behind me—those are consumers. More money in their pockets means more money for businesses to grow, and it's also good for our economy overall.

The second thing is responsible businesses, the businesses that are paying a fair wage, a responsible wage, are kind of sick and tired of being undercut by employers who are trying to squeeze every last penny out of every worker who comes through the door. They want everyone to be held to a basic minimum, not something lavish or something that will put workers on Easy Street, but some basic minimum so that competition is fair.

The logic of the original Fair Labor Standards Act was fair competition among businesses, as much as it was about helping workers. So my sense is that those are the two reasons.

The CHAIRMAN. Mr. Harris, could you also address yourself to this aspect of tipped wages, tipped workers? We haven't raised that since, I think, 1991.

Secretary HARRIS. That's right.

The CHAIRMAN. And I don't have it in front of me, but I think it's around $2 and——

Secretary HARRIS. Thirteen cents.

The CHAIRMAN. It's $2.13 an hour right now. And when I tell people that, it's incredible. They say, "No, no, no, that's not right." And I say, "Yes, it is." So part of our bill is to raise that tipped wage up and then to index it, also. Could you address yourself to the necessity of increasing the tipped wages?

Secretary HARRIS. Yes. I'm in strong agreement with you that the cash wage for tipped workers needs to be increased. The way the law works right now, employers are required to pay a minimum of $2.13 to waiters and waitresses and other people who get tips, as long as their tips bring them up to the Federal minimum wage.

In essence, what's happening is those of us who go out to restaurants and get wonderful service from a waiter or waitress, and we leave money on the table as a way of saying, "Thank you. We really appreciate the terrific service that you gave us," we're actually subsidizing the employer's wage to that worker.

For waiters and waitresses, that cash wage, that $2.13 wage, has declined in value by 40 percent since the last time it was increased in 1991. I think it's really very difficult to justify doing that. So the President agrees with you and Congressman Miller. We'd like to see the tipped minimum increased so that those folks get rewarded. They're assured of being rewarded with a higher wage.

The CHAIRMAN. Very good. I just have one more quick statement, and then I'll recognize Senator Alexander.

Entry level—a lot of times we hear that minimum wage jobs are just entry level. No one really stays there. It's a training ground for teenagers. They get raises and move on to higher paying jobs. So it's an entry kind of level, but no one ever stays there very long. I guess Kizzie and Pattie might disagree with that, but we hear this all the time.

What have workers been telling you about this? Do they stay there just a short time and move on, or are there a lot of people in our society that kind of get in those minimum wage jobs and they just are there for a long time?

Secretary HARRIS. It's the latter, Senator. The workers I've met around the country—first of all, they're not overwhelmingly teenagers. In fact, only one in five of the people who would benefit from this increase are teenagers. Most are adults. Sixty percent are working women. A large number of them have children that they're supporting.

But I've met workers who have been in their jobs sometimes 3 or 4 years, and perhaps they've gotten a raise, but if they started at the minimum wage, they've maybe gone from $7.25 to $7.75 or $8 an hour. And I've met some workers who are still earning $8 an hour after 15 or 20 years at their job.

It's a consequence of what their employer is willing to pay. They're not being rewarded for their loyalty to the employer. They're not being rewarded for what they've learned from being in the job or their higher productivity. So this raise would actually assure those workers that they're able to lift themselves out of poverty, their families out of poverty, and that they get the reward they deserve.

The CHAIRMAN. Thank you very much, Secretary Harris.

Now I'll recognize Senator Alexander.

OPENING STATEMENT OF SENATOR ALEXANDER

Senator ALEXANDER. Thanks, Mr. Chairman. Excuse me for being a little late. I was voting for one of the President's cabinet nominees, which I thought you would want me to do.

The CHAIRMAN. Did she get through?

Senator ALEXANDER. I'm sure she did, since we always try to support most of the President's nominees.

Welcome, Mr. Secretary. I'm glad you're here.

Mr. Chairman, I thank you for calling this hearing. This is the second hearing on minimum wage. My problem with the hearing is that it's a hearing on how to pay fewer people more money instead of how to get more new jobs, which is what we need in this country with such a high rate of unemployment. I would rather see hearings, although I don't have the prerogative as the chairman does of setting the agenda—I'd rather see hearings on creating an environment in which we can grow the largest number of good new jobs and make those more accessible.

We always seem to have economists—and we'll probably have some more today—who contend with each other about the effect of the so-called minimum wage. One example is a study, Minimum Wages and Employment: A Review of Evidence From the New Minimum Wage Research 2006, authored by a professor at the University of California-Irvine and an economist at the Board of Governors of the Federal Reserve System. And I'll ask consent to put others in the record, also.

[The information referred to can be found in additional material.]

Senator ALEXANDER. This study compared 100 minimum wage studies published since the 1990s. Nearly two-thirds of the studies found negative employment effects of minimum wage increases while only eight studies found positive effects. In other words, negative employment effects mean fewer jobs. Positive effects mean more jobs.

Eighty-five percent of the, "most credible" studies showed negative employment effects, which were most pronounced in studies of less skilled employee groups. Studies showing positive employment effects generally relied on an economic model which is based on the dubious economic assumption of an upward sloping labor supply curve.

That's one review of a number of prestigious studies that have tried to prove what the effect of minimum wage is. From my point of view—and I think the point of view of many on our side of the aisle—what the minimum wage is is a good-sounding attempt to fix the price of labor. And in a market system, what that usually does is create a shortage. It creates less.

We had testimony at the first of the minimum wage hearings. We had one economist, and then we had two individuals who actually ran businesses. The economist was talking about his academic research about how to run a business, and one guy that runs the business was actually talking about running a business, and he said, unquestionably, that if the cost of labor is more, that will permit him to hire fewer people. That's what he said.

And there are a number of other costs that small businesses have, one being the proposed cost of healthcare that is going into effect October 1. When you add to that an increase in the minimum wage, all those costs add up to a level of costs that has to be subtracted from the revenue, and if there's less money there to pay employees, there are fewer employees. That was the testimony we received.

I've had a little experience in trying to create jobs in the private sector, in helping to build a company that eventually ended up on NASDAQ and became the world's largest provider of worksite daycare. As a Governor, when I came to a State that had the third lowest family incomes in America, I looked around for ways to help our State, which is a poor State, improve those incomes. And the last thing from my mind was to try to say, "What I ought to do is just pass a law in Tennessee that says everybody ought to be paid more."

I knew from my own experience that companies had to make the money to pay higher wages, and companies wouldn't come and couldn't grow in Tennessee if that were the requirement. So we set about in another direction, and that was to create an environment in which they could succeed.

That meant, for example, getting rid of the usury limit, which we had in the State at the time, which kept capital from coming in. It meant maintaining and defending a right-to-work law, which gave employees freedom to choose and created an opportunity for the American automobile industry to come to Tennessee and compete in this marketplace.

Suddenly, we went from a situation where we had no auto jobs to one where a third of our manufacturing jobs are auto jobs. And the whole center of the American automobile industry has moved to the South, where you have the Saturn plant, which is 16 miles away, and that's a UAW partnership; or the Nissan plant, which does not have a union. But you have that choice.

Creating an environment in which we could grow the largest number of good new jobs had to do with creating a banking system that would be responsive to the needs of the State. And more than anything else, it had to do with education. We became the first State to pay teachers more for teaching well and had 10,000 master teachers who voluntarily went up a career ladder.

Now, I don't know whether all those kinds of things that we did in the 1980s made a difference. It's hard to measure that. But I do know that over the 1980s and into the 1990s, we had the fastest growing family incomes of any State. And I do know that our current Governor and legislature are continuing to create an environment where companies can come and, without excessive mandates, create jobs to make a profit.

So my attitude toward the so-called minimum wage is that it basically cuts the bottom rung off of the economic ladder onto which we hope Tennesseans and Americans will step so they can then climb up the ladder, and that our focus ought not to be on cutting that rung off so fewer people can get on the ladder. Our focus ought to be on helping people move up the ladder, and that means giving a choice of whether or not to join a union, giving them a choice of going to a good school instead of a bad school if they're poor, giving them a choice of paying teachers more for teaching well—as many of these attitudes as we can think of.

I would throw into that, Mr. Chairman, that we built the best four-lane highway system in the country in order to attract business. So I think the hearing is on the wrong subject. I think it's on the question of fewer jobs. I'd like to see the hearing be on more jobs. When my time for questions comes, I'll have some questions to ask on that subject.

I thank the chairman.

The CHAIRMAN. Senator Warren.

STATEMENT OF SENATOR WARREN

Senator WARREN. Thank you very much, Mr. Chairman. I appreciate your holding this hearing. I think it's an important hearing.

Thank you, Secretary Harris, thank you for being here. I really appreciate it. I'm glad you're here.

Pattie from Boston and Kizzie, I'm glad you're here, too, and everyone who came for this important hearing.

I also want to say thank you to the chairman again for all of your leadership on minimum wage. You've made something a national issue again that needs to be a national issue.

We're here today, I think, to focus on tipped workers, the waiters and waitresses who serve our meals, staff our hotels, wash our cars. Over 3 million Americans work such jobs that rely on tips. About 45 percent of those who rely on tips are over the age of 30, and over 70 percent are women, many with children.

It's been more than 20 years since we increased the minimum wage for tipped workers, as you said. In fact, the minimum wage for tipped workers now sits at an absurdly low $2.13, which means that inflation has eaten it away, as you said, Secretary Harris. The minimum wage for tipped workers covered 50 percent of the minimum wage for other workers when it was enacted. It now covers only 29 percent. We can do better than that.

Here's what I want to start with. What does the Department of Labor data tell us happened the last time we increased wages for tipped workers back in 1991? We hear the argument, "Oh, it's going to destroy jobs." What happened when we increased the minimum wage for tipped workers back in 1991?

Secretary HARRIS. I'm not sure we have data specifically about tipped workers. But the overwhelming weight of the evidence now, as I understand it—I'm not an economist, but my understanding is that the overwhelming weight of the evidence is if you institute a moderate minimum wage increase, we don't see the kind of negative employment effects that Senator Alexander is talking about. And Professor Reich will have a lot more to say about this than I, because he is in the field.

But there's been study after study after study comparing jurisdictions where the minimum wage has gone up and jurisdictions where the minimum wage has not gone up, and you don't see differential employment effects in those two jurisdictions. Professor Reich co-authored one of those studies. Earlier today, Dr. Alan Krueger, who's the chair of the President's Council of Economic Advisors, talked about the evolution in the economics field and how the conclusion that he found back in 1995 has been validated time and time again, that we don't see a negative employment effect from increasing the wage.

Senator WARREN. So let me ask, then, about the current law on minimum wage for tipped workers. As I understand the current law, someone goes out, they've got their $2.13 on their paycheck, and if the tips don't bring them up to minimum wage, then it is the responsibility under Federal law of the employer to fill in the difference, to make sure, in other words, that everyone reaches the Federal minimum wage.

The question I want to ask you is how successful have you been at enforcing that?

Secretary HARRIS. We have a great deal of difficulty enforcing that for the obvious reasons, and that is counting the value of tips that are collected in a particular workplace on a particular night is an extremely difficult activity. And what tips are distributed—because they're often distributed in cash—is an extremely difficult activity.

The Wage and Hour Division, which has 1,000 inspectors to protect 140 million workers in more than 7 million workplaces, including the waiters and waitresses you're talking about, has a gravely difficult time trying to figure out who's gotten what and how much, and whether it's from the right tip pool, and who's been included in that. It's actually quite complicated. It's very, very difficult to enforce.

Senator WARREN. In other words, we don't have a lot of confidence that the Federal law as it currently exists is enforced. I think what we've got right now is this: when you look at the poverty data, it turns out that workers who are employed as waiters and waitresses are nearly three times more likely to be below the poverty line than other workers, which suggests something isn't working here.

It sounds to me like the only option we have that works is that we have to raise the floor on the minimum wage for tipped workers. Otherwise, these are people who have no recourse.

Secretary HARRIS. I agree that that's true. The only way to assure that these workers are going to get more money is to raise the cash wage the employer has to pay that goes on a pay stub that my investigators can check.

Senator WARREN. All right. Good. Thank you very much, Mr. Secretary.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warren.

Senator Murray.

STATEMENT OF SENATOR MURRAY

Senator MURRAY. Mr. Acting Secretary Harris, it's great to see you here.

Mr. Chairman, thank you so much for this.

In your testimony, I love the stories of workers who are struggling to make ends meet. I understand several of them are with you today, and I really appreciate you sharing your stories and how increasing the minimum wage increases the quality of life that you have.

We heard here, and I've heard it before, that we're just talking about a few workers. How many people are on minimum wage in this country?

Secretary HARRIS. This increase, the President's proposed increase, would benefit about 15 million workers.

Senator MURRAY. Fifteen million people?

Secretary HARRIS. The higher proposal that Senator Harkin and Congressman Miller have made, I understand, would benefit about 27 million.

Senator MURRAY. Twenty-seven million?

Secretary HARRIS. Either 27 million or 30 million, depending upon how you count it.

Senator MURRAY. Between 15 million and 27 million, depending on the proposal.

Secretary HARRIS. Yes.

Senator MURRAY. Talk to me a little bit about how that increase in their minimum wage not only helps them as an individual, but helps the economy around them as well.

Secretary HARRIS. It'll put billions of dollars into the pockets of the people in our society who are most likely to spend those dollars. Economists talk about propensity to consume. What that means is when you get your money, do you spend it?

As I've traveled around the country, what these workers here have told me is every dollar, every single dollar they get from this increase they're going to spend in the local grocery store, in the local gas station. They're going to use it to pay their rent or their bills or their utilities, simply because they don't have any savings.

I jokingly asked everybody, "How many of you have offshore bank accounts in the Cayman Islands and you're going to put your money in that?" Nobody ever raises their hands, because it's going to go right back into low-wage communities, where these folks live.

Senator MURRAY. The pizza parlor, the grocery store, buying diapers for their kids, the things that they stretch every single day. So it helps local businesses as well, I'm assuming.

Secretary HARRIS. Absolutely.

Senator MURRAY. We're actually seeing the exact opposite of this today with sequestration, where in communities that I know of, civilian and military employees are getting cut back on furloughs. The pizza factories, the little shops, the movie theaters are all seeing a huge loss of income right now, because it just has a huge impact on people like this. So I think this affects a lot more people than 15 million to 27 million. It affects a lot of businesses, small businesses, communities, and their economy.

I wanted to ask you—one key aspect of Senator Harkin's proposal and the President's proposal is indexing the minimum wage to inflation so the value doesn't erode over time. This is an important part of my home State, Washington State's minimum wage. I am proud to say we are 1 of 10 States that index our minimum wage. Can you talk a little bit about why tying the minimum wage to the cost of living is so important?

Secretary HARRIS. I think it's critical, and the workers tell me it's critical. The price of gas, the price of milk, the price of rent and utilities keeps going up, and minimum wage workers, with all respect, have to wait for Congress to give them a raise before they get a higher minimum wage.

It's been 4 years since the last increase. Before that, it had been 10 years since the last increase in the minimum wage, and the value declines because of inflation. Even with very low inflation, like we have now, you still see the real value of the minimum wage decline, so they're able to buy less. They're less able to support their families.

Raising the minimum wage to a more reasonable level and then indexing it will allow them to keep up. It'll also, frankly, take it out of politics a little bit. It will make it more about the cost of living.

Senator MURRAY. Right, and we certainly have found that in my State, for sure. Thank you very much.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Murray.

Senator Alexander.

Senator ALEXANDER. Thanks, Mr. Chairman.

Mr. Harris, on the subject of creating more jobs, on October 21, OSHA issued a letter of interpretation concluding that a union representative who is not an employee may accompany an OSHA inspector during a walk-around inspection of a work site and may even be designated as the employee representative in a non-union workplace. So you've got a non-union workplace, and the OSHA inspector can bring in a union representative to walk around with him or her. Did you review and approve this letter of interpretation?

Secretary HARRIS. I didn't. That came from OSHA after consultation with the solicitor's office.

Senator ALEXANDER. Well, how would you make sure that a rule like this doesn't involve OSHA in the employer's labor-management relations? I mean, let's say you've got a company without a union in Tennessee, and OSHA comes in with a United Auto Workers representative and starts walking through the plant. How does that not affect labor-management relations?

Secretary HARRIS. I can't assure that it doesn't affect it, Senator. But walk-around rights have been a part of the operation of the Occupational Safety and Health Act, I believe, since its inception back in the 1970s.

Senator ALEXANDER. Walk-around rights for whom?

Secretary HARRIS. Walk-around rights for workers and their representatives. So workers have been able to choose representatives for some time now. The question was raised with us, as I understand it—again, I wasn't involved in this decisionmaking. This is not the kind of thing that would typically come to my level. OSHA was asked for an interpretation and whether or not this was an appropriate action for a worker to undertake, to select a union representative or somebody else who's not in the workplace to engage in the walk-around with them——

Senator ALEXANDER. But OSHA's own regulation says, "Representatives authorized by employees shall be an employee of the employer." That's OSHA's own regulation. How can you get the UAW organizer to walk around with you if he's not an employee of the employer?

Secretary HARRIS. I'll have to get back to you on that, Senator, because I'm not familiar with that particular language that you're reading to me. That's not my recollection of the description that I got from OSHA.

Senator ALEXANDER. OSHA is in the Department of Labor. Right?

Secretary HARRIS. Right.

Senator ALEXANDER. In December 2011 the Department of Labor proposed a new rule that would narrow the application of the companionship exemption under the Fair Labor Standards Act so that many in-home caregivers would have to be paid overtime. We had a pretty big discussion about that here with Secretary Solis.

The effect of that, I and others were afraid, would have the effect of increasing the cost of in-home companionship, which is paid by Medicaid, and Medicaid includes a large component of State funds. That's about 40 percent.

We were wanting to know whether this will mean that there are fewer people who can afford to have in-home companionship. Many older people need that. Will there be fewer jobs for home caregivers because of that? And what will the cost be to States under the Medicaid plan?

Medicaid is the most rapidly growing part of State governments. It's now 26 percent of State governments. The new healthcare law is causing States to scramble in every direction to figure out how to pay for it.

On March 14, I asked former Secretary Solis, in front of my Appropriations Subcommittee, if she had consulted with any State Medicaid directors about the impact of the proposed rule, and, if not, whether she was willing to meet with them. I never heard. So do you know if Secretary Solis met with any State Medicaid directors about this proposed rule?

Secretary HARRIS. Can I speak to the department as a whole rather than Secretary Solis, personally?

Senator ALEXANDER. Sure.

Secretary HARRIS. Because I didn't track her schedule that closely. But let me say we are very deeply engaged with the Centers for Medicare and Medicaid Services. We also worked with CMS on joint outreach to State Medicaid directors. We've had a number of calls, including one call where 26 States represented by 38 State Medicaid program representatives participated. Let me also say during the notice——

Senator ALEXANDER. Now, who had that call?

Secretary HARRIS. That was jointly the CMS and the Wage and Hour Division, which is the division in the Labor Department that's responsible for the crafting of that rule.

Let me also say during the Administrative Procedures Act open notice and comment process, we received comments from a number of State Medicaid directors, including the Tennessee State Medicaid director and those from Arkansas, California, Virginia, Oregon, and Washington State. And we have received comments from the National Association of Medicaid Directors and the California State Association of Counties. They all submitted written comments during the APA process.

We have been as deeply engaged as we feel we can be with the Medicaid community both at the Federal level and at the State level. And their comments are being taken very, very seriously, I can assure you, in this regulatory drafting process.

Senator ALEXANDER. Thank you for your response. And you're still planning to finalize that rule?

Secretary HARRIS. That's our hope. We're working on it.

Senator ALEXANDER. Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Alexander.

Again, Secretary Harris, thank you very, very much for being here and for your excellent testimony and for your outstanding leadership of the Department of Labor. We appreciate it very much.

Secretary HARRIS. Thank you so much, Mr. Chairman.

The CHAIRMAN. Now we'll move to our second panel. Dr. Michael Reich is director of the Institute for Research on Labor and Employment and professor of economics at the University of California at Berkeley. He has authored over 100 books and other publications on labor economics and political economy, including the economic effects of the minimum wage. Dr. Reich received his bachelor's in mathematics from Swarthmore College and his Ph.D. in economics from Harvard University.

The Most Reverend Stephen E. Blaire is the Bishop of the Catholic Diocese of Stockton, CA, and chair of the Committee on Domestic Justice and Human Development of the U.S. Conference of Catholic Bishops. Bishop Blaire attended St. John's College and Seminary in Camarillo, CA, and was ordained to the priesthood in 1967. Pope John Paul II appointed Bishop Blaire as the Bishop of Stockton in 1999.

Bishop Blaire, you and I met about a year ago, and it's very good to see you here again, and welcome.

Hilary O. Shelton is director of the Washington Bureau and senior vice president for Advocacy and Policy of the NAACP, the National Association for the Advancement of Colored People. Mr. Shelton has spent his career advocating for civil rights protections in the United States. He previously worked with the United Negro College Fund and the General Board of Church and Society of the United Methodist Church. He is the recipient of numerous awards from civil rights and faith-based communities for his service. Mr. Shelton holds degrees from Howard University, the University of Missouri, and Northeastern University.

James Sherk is the senior policy analyst in Labor Economics at the Heritage Foundation. Mr. Sherk received a master of arts degree in economics from the University of Rochester and a bachelor's degree from Hillsdale College in Hillsdale, MI.

Thank you all for being here. Each of your testimonies will be made a part of the record in their entirety. We'd ask you to sum it up in 5 to 7 minutes, and then we'll open it for rounds of questions.

Dr. Reich, welcome and please proceed.

STATEMENT OF MICHAEL REICH, Ph.D., PROFESSOR OF ECONOMICS AND DIRECTOR, INSTITUTE FOR RESEARCH ON LABOR AND EMPLOYMENT, UNIVERSITY OF CALIFORNIA AT BERKELEY, BERKELEY, CA

Mr. REICH. Thank you, Chairman Harkin and all the members of the committee, for the privilege of speaking to you today. My task is to provide an overview of the impact of minimum wage legislation enacted 75 years ago today and the Fair Labor Standards Act of 1938 and amended subsequently on many occasions.

I do this as a labor economist. I've had over 40 years of experience studying low-wage labor markets, especially the role of employee turnover in low-wage labor markets. And I've been, in the last half dozen years or so, the author or co-author of quite a few studies of minimum wages and their effects from many different angles.

In the longer prepared statement, I argue that the national minimum wage has had important positive effects upon living standards—that's what it's designed to do—without shooting ourselves in the foot, that is, without reducing employment. It has also had other positive effects, especially in previous decades.

In the 1930s, money, wages, and prices were spiraling downward, prolonging and deepening the Great Depression. By creating a floor that would increase automatically, at least until 1945, the Fair Labor Standards Act helped stabilize the economy and helped to end the Great Depression. And since then, it's been much more difficult to cut wages in the United States, or employers have been reluctant to do it, and that situation seems to be changing more recently, however.

After World War II, when we had several decades of shared prosperity, that is, we had rapid economic growth and wage growth that was roughly equal throughout the wage distribution, Congress increased the real minimum wage quite a few times to stay in the range of middle-class wages, 50 percent to 55 percent of middle-class wages. So the minimum wage rose in real terms and was an important pillar of the shared prosperity economic model that we followed in those years. And we had much higher growth rates in those years than we've had subsequently.

From the 1980s until the Great Recession that began in 2006, the economic terrain is different, with wage stagnation now for the middle class—median wages have only gone up about 5 percent in the last 35 years—and wage declines for low-wage workers and increases in pay inequality especially at the top. In this context, my studies have shown that minimum wage policy has, nonetheless, increased pay without adversely affecting employment and has also reduced poverty and wage inequality.

In the course of my studies, I've also looked at the question of indexation that Senator Murray raised, as well as more recently looking at tip credits. Now, since the onset of the Great Recession and the weak economic recovery that has followed, tens of millions of middle-class workers have suffered deep declines in their annual earnings or lost their jobs altogether. This is a context of increasing middle-class insecurity, if not destruction of middle class.

In this context, the value of the minimum wage forms an ever more important reference point for insecure workers, a reference point. My own research shows that minimum wages of $10 or more today—those are the levels now in two of the most prosperous cities in the United States, San Francisco and San Jose, CA—do not have negative employment effects. That's based on the full range of States.

Vice President Biden mentioned this morning my study, which compared employment effects across State borders, where one county had a minimum wage that was higher than the other. And there, we looked at hundreds and hundreds of counties over a period of 20 years, and we found no minimum wage effect using what is a very intuitive control, namely, the wage and employment level in the county across the State border.

The reason that minimum wages don't reduce employment, in my view, with over 40 years of research, is that they reduce employee turnover. Employers who are low-wage employers have very high turnover, over 100 percent. That doesn't mean everyone leaves in a year, because there are multiple departures, short-term tenure. And raising the wage has a very demonstrated effect on reducing turnover. That makes it easier for employers to recruit and to retain workers, recruit and retain workers. Those policies then reduce turnover costs.

The way I think of this is not that minimum wage has killed jobs, but it kills job vacancies to make it easier for employers to fill their vacancies and they have shorter vacancies or fewer vacancies. George Stigler, a Chicago economist, noted this in 1946 in an article, "The Economics of Minimum Wage Legislation," where he emphasized mainly that in a competitive labor market, a purely competitive labor market—that's one of our Econ 101 models we teach—that the demand curve slopes downward and an increase in minimum wage is going to reduce employment.

But he was a smart economist. He pointed out this other model, where if employers have trouble recruiting workers, if it cost them some—and I don't mean it cost them a lot per worker in a low-wage—McDonald's or a similar context—but rather that they multiply that by hundreds and hundreds of workers who turn over every year. In that context, an increase in the minimum wage, even in Stigler's theoretical models, can even increase employment a bit, and it certainly might not affect employment at all.

That's another way of saying that the minimum wage makes it easier for employers to reduce their recruitment costs and workers stay on longer in the same job. That model is referred to as monopsony. It's in every undergraduate labor economics textbook. It's only in the last few decades that we've actually begun to study that model and its implications, and also that we've been able to get credible studies of how minimum wages affect employment.

I talked about my border-controlled study. The reason that's important is that minimum wage States are not randomly selected. They are clustered geographically. If you don't have local controls, your study is a bad study. With that, you can show that minimum wages reduced employment 2 years before the minimum wage went into effect.

Critics of minimum wage, Nuemark and Wascher, make this point and have criticized our study as saying the border controls aren't valid. We've just issued a 75-page paper saying the opposite. We've gone head to head at a recent conference sponsored by the Bank of Portugal. It's very clear who won. I won't leave you in suspense. It was us.

Let me close because the time is up. The Great Recession and the subsequent weak job market recovery have eliminated and endangered millions of middle-class jobs. In this new era, young workers can no longer count so much on minimum wage jobs as stepping stones into middle-class careers as they used to be able to. And middle-class workers are increasingly looking at minimum wage rates, as I've said, as key reference points for their own level of economic security or insecurity. In this new context, the case for minimum wage increases is as compelling as ever.

Thank you very much.

[The prepared statement of Dr. Reich follows:]

PREPARED STATEMENT OF MICHAEL REICH, PH.D.

1. INTRODUCTION

Thank you Chairman Harkin, and all the members of the committee, for the privilege of speaking to you today. My task is to provide an overview of the impact of minimum wage legislation, enacted exactly 75 years ago in the Fair Labor Standards Act of 1938 and as amended subsequently on numerous occasions. I do so as a labor economist with over 40 years of research on low-wage labor markets and as the author or co-author of numerous recent studies on minimum wage effects. My work has been published in the top refereed economics journals; in March 2013, the *Economic Report of the President* referred to my work in this area as "particularly compelling."

Congress passed the FLSA only after a long and heated political campaign. Similarly to much other landmark legislation, the initial law represented a compromise with significant exemptions, many of which were closed only in subsequent decades. Nonetheless, in his Fireside Chat of June 24, 1938, President Roosevelt had no doubts about the importance of the FLSA. Roosevelt made three key points: (*http://millercenter.org/president/speeches/detail/3314*).

> "Except perhaps for the Social Security Act, it [the FLSA] is the most far-reaching, far-sighted program for the benefit of workers ever adopted here or in any other country. Without question it starts us toward a better standard of living and increases purchasing power to buy the products of farm and factory."

Roosevelt then referred to whether businesses could afford a wage floor, a topic that still forms the core argument of the policy's critics:

"Do not let any calamity-howling executive with an income of $1,000.00 a day, who has been turning his employees over to the Government relief rolls in order to preserve his company's undistributed reserves, tell you—using his stockholders' money to pay the postage for his personal opinions—tell you that a wage of $11.00 a week is going to have a disastrous effect on all American industry."

Roosevelt closed his discussion of the bill with an argument that one does not hear as often today:

"Fortunately for business as a whole, and therefore for the Nation, that type of executive is a rarity with whom most business executives most heartily disagree."

Was President Roosevelt correct about the far-reaching effects of the minimum wage provisions of the FLSA? In my comments today I argue that the national minimum wage has had important positive effects, but it is important to distinguish those effects according to the changing times. The minimum wage had a major and positive transformative effect upon the national economy in the 1930s and 1940s. After World War II, the minimum wage became an important pillar of the Nation's shared prosperity, which characterized the national economy through the 1970s.

Since the 1980s, the economic terrain shifted markedly: wage stagnation for the middle class, wage declines for low-wage workers and increases in pay inequality, especially at the top. In this context, minimum wage policies have nonetheless increased pay of low-wage workers without adversely affecting employment, and they have reduced both poverty and wage inequality.

I will also review economists' recent research on minimum wage effects in the United States. My own research shows that minimum wages as high as $10.60 today do not have negative employment effects. These findings make sense if we take into account the very high levels of employee turnover, often in excess of 100 percent per year, and large numbers of job vacancies at any particular time, that characterize low-wage industries. In this too-often ignored context, economic theory as well as empirical evidence shows that minimum wage policies reduce turnover costs and job vacancies, but not employment.

2. THE MINIMUM WAGE FROM 1938 THROUGH THE 1970S

The 1938 Act replaced a patchwork of 25 State minimum wages (mostly limited to women) with a uniform national floor covering about half of the workforce (agriculture and retail were excluded). The creation of a wage floor of $.25, together with the anticipation of the scheduled further increases, to $0.30 in 1939 and to $0.40 in 1945, helped end the downward spiral of money wages in the 1930s.

That downward spiral, as Keynes argued at the time, had prolonged and deepened the Great Depression. Stabilizing wages (and therefore also prices) had been a major concern among many business executives. And most American economists in that period were not opposed to establishing a national wage floor. Indeed, the then-current conventional wisdom, called the doctrine of high-wages, argued that higher worker purchasing power would create more economic growth.

In the immediate postwar decades, increases in the floor brought its level to a peak that is the equivalent of about $10.60 in today's dollars, or 46 percent higher than today's minimum of $7.25. Moreover, amendments in the 1960s and 1970s expanded coverage to nearly 80 percent of the nonagricultural private sector workforce by 1973 (Welch 1973, Table 2).[1]

In addition to helping reverse the downward national spiral of money wages, the national minimum wage helped transform many low-wage industries. These effects were most evident in the South, a region that was both much poorer than the rest of the United States and poorly integrated with the national economy. As the eminent Stanford economic historian Gavin Wright has shown, the FLSA-created floor was highly binding in Southern industry. But nonetheless, a more prosperous South, one with more employment growth and at higher wages, began to emerge after the passage of the Act. This transformation was not foreseen by the bill's opponents, many of whom represented Southern States and districts. An equally dramatic upsurge in the South's fortunes occurred in the 1960s, after the FLSA extensions and the Civil Rights revolution (Wright 1986, 2013).

While the South gained relative to the national economy, the postwar era also was one of shared and rapid growth overall. Although it may seem surprising today, minimum wage increases then were designed not only to keep pace with inflation,

[1] Later extensions increased coverage much farther, to more retail and service workers, to public sector workers, to medium and large farms and to some domestic workers, although also adding a credit for tipped workers.

but also to maintain equity with the growth of median wages—the wages received by the middle-class. Indeed, from 1939 through the 1970s, the Federal minimum wage increased almost every 5 years, not only leapfrogging inflation, but also keeping a ratio of 48 to 55 percent for the minimum wage as a percent of the median wage (Welch 1973, Table 1; Dube 2013, Figure 6).

In the early postwar years, economists' thinking about the minimum wage changed significantly. In a 1946 theoretical paper, Chicago economist George Stigler noted that when the labor market is perfectly competitive a higher minimum wage had to reduce employment. Stigler also examined a very different labor market case: one in which recruiting workers incurs significant costs for employers. When "friction" replaces the costless adjustment mechanism assumed by perfect competition, a wage floor can reduce employers' recruitment costs, and a higher minimum wage could then *increase* employment.[2]

As a consequence, the actual effect of minimum wages could be known only by empirical research. Stigler's argument, referred to by economists as monopsony, became a feature of every undergraduate labor economics textbook. Most general economists, however, believing that the monopsony case was a quaint exception, were persuaded that minimum wages had to have negative employment effects.

Actual empirical research with microeconomic data on minimum wage effects began in the 1970s. These early studies were hampered by statistical issues that made it difficult to distinguish correlations from causal effects. Nonetheless, they suggested disemployment effects that were surprisingly small and limited primarily to teens.[3] Small effects could mean that the benefits to those receiving higher pay outweighed the costs to those displaced from jobs. And in a context of low overall unemployment, any displaced workers would get others relatively easily. More economists began to approve of minimum wage policy for these reasons.

3. MINIMUM WAGE EFFECTS SINCE THE 1980S

The economic terrain shifted radically in the 1980s, to one of lower overall economic growth, stagnating real median wages and increased higher wage inequality. In the past three decades, Federal minimum wage increases have not kept up with the real median wage. As a result, the ratio of the Federal minimum wage to the median wage fell substantially, to a low of 32 percent in 2006. The ratio stands at 39 percent today, much lower than the 48–55 percent range of four decades ago. In response to the declining level and reach of the Federal minimum wage, States have acted increasingly on their own and proposals to raise the Federal floor and to close some of the remaining exemptions are again on the table.

As has been the case for several decades, the primary question is whether minimum wages create disemployment effects. Economists today can provide more credible studies than in previous years. We have much-improved statistical tools, better data and more elaborated understandings of frictional labor markets.

Federal increases, which by definition are national in scope, do not afford economists sufficient variation to credibly identify the causal effects of minimum wage increases. But State policies since 1985 and especially in the 2000s have generated increased variation in time and space in minimum wages. This increased variation gives economists greater ability to study the causal effects of minimum wages.

However, it is import to use controls that reduce rather than reinforce the confounding effects of other economic variables. The question of proper statistical controls arises because States that are more likely to adopt minimum wages are not randomly distributed; they are geographically clustered and differ in other labor market respects from States that are less likely to adopt minimum wage policies. The clustering is shown in Figure 1.

In a series of five papers using five different data sets and six different statistical approaches, my colleagues and I have used local controls, similar in spirit to those used in the famous David Card and Alan Krueger papers of the 1990s. To provide just one example: In Allegretto, Dube, Reich and Zipperer (2013) we compare all the pairs of counties that straddle a State border and that have had a minimum wage

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[2] For example, according to Seltzer (2002), the establishment of the FLSA led directly to high wages and higher employment in the Virginia tobacco industry in the 1930s. Seltzer interprets these results using the monopsony model. In 1974, as Gordon (1981) finds, the extension of minimum wage coverage to housekeepers reduced the decline in employment in that occupation. The 1974 extension did not include home care workers. According to the BLS' Occupational Employment Survey, in May 2012 home care workers earned about $1 less than housekeepers.

[3] An exhaustive review article by Brown, et al. 1982 concluded that significant effects were limited to teens; for this group a 10 percent increase in the wage floor was associated with a 1–2 percent decline in employment. Reviews of later research studies (for example, Brown 1999; Neumark and Wascher 2008) reached the same conclusion.

policy discontinuity in the past 20 years. (This study updates the Dube, Lester and Reich 2010 study that the *Economic Report of the President* and many economists have praised.) Figure 2 shows the counties that are included in such a study.

We find that failing to include controls for local labor market conditions creates a bias toward finding disemployment effects that are not there. This problem plagues dozens of studies, including almost all of those of David Neumark and William Wascher. When we include such controls, we do find evidence that minimum wages increase actual wages, but no evidence that they reduce employment.

In a followup paper (Dube, Lester and Reich 2012), my colleagues and I examine, for the first time with U.S. data, the effects of minimum wages on rates of employee hires and separations. This study thus looks at worker flows in and out of jobs. We find that minimum wages have large negative effects on both types of worker flows. In other words, employers now have an easier time recruiting and retaining their workforce. This makes sense, given the large frictions—costs of recruitment and retention—among high-turnover low wage employers.[4]

4. SUMMARY AND CONCLUSIONS

This whirlwind review of minimum wage effects since 1938 confirms President Roosevelt's view that the FLSA was both far-reaching and far-sighted. Minimum wage policy helped to eliminate the downward pattern of money wages in the 1930s, thereby removing one of the forces that had deepened and prolonged the Great Depression. In the immediate postwar decades, minimum wage increases were important in creating shared prosperity. In more recent decades, minimum wages have not kept up with inflation, but they nonetheless have increased low-wage workers' pay without creating negative employment effects.

I do not have here the space to discuss studies that have examined its other major effects, such as on poverty and pay inequality. Suffice it to say that careful studies show that the minimum wage reduces both (Dube 2013; Autor, Manning and Smith 2010).

A recent poll of high-ranking economists in all fields showed that a significant plurality now support minimum wage increases.[5] Put together with other polling studies, it seems clear that economists as a group, who were once more likely to oppose minimum wages, are now much more likely to support minimum wage increases.

The Great Recession and the subsequent weak job market recovery have eliminated and endangered millions of middle-class jobs. In this new era, young workers can no longer count so much on minimum wage jobs as stepping stones into middle-class careers. And middle-class workers are increasingly looking at minimum wage rates as key reference points for their own level of economic security. This new context makes the case for minimum wage increases as compelling as ever.

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[4] Our emphasis on the importance of local controls has been recently criticized by Neumark, Salas and Wascher (2013). However, as our newest paper (Allegretto et al. 2013) thoroughly documents, our further examination of this question and even their own results show that local controls are indeed valid and that their proposed new methods are incorrect.

[5] *http://www.igmchicago.org/igm-economic-experts-panel/poll-results?SurveyID=SV_br0IEq5a9E77NMV*.

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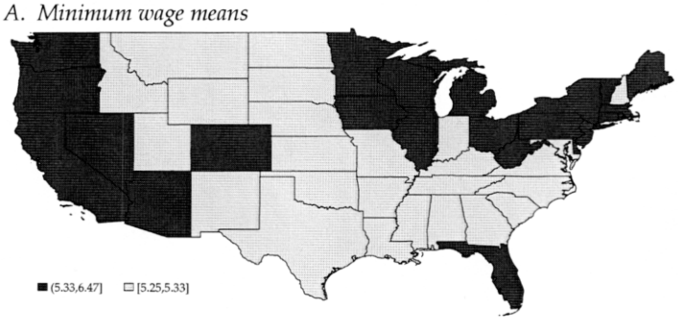
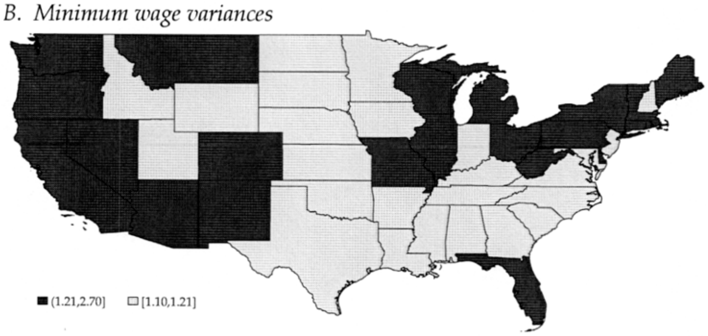
Figure 1 High versus low minimum wage states during 1990 – 2012: Means and variances

A. Minimum wage means



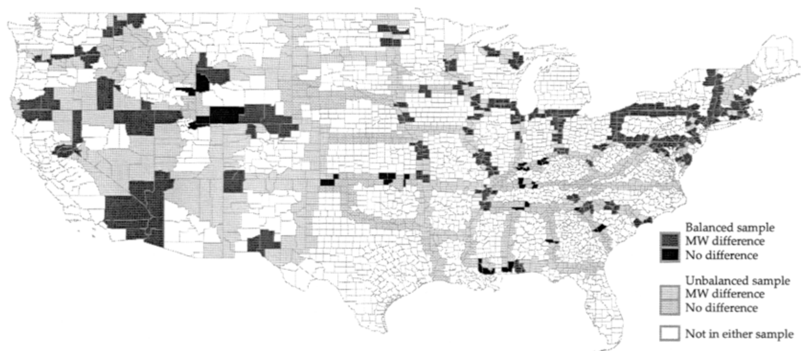
B. Minimum wage variances



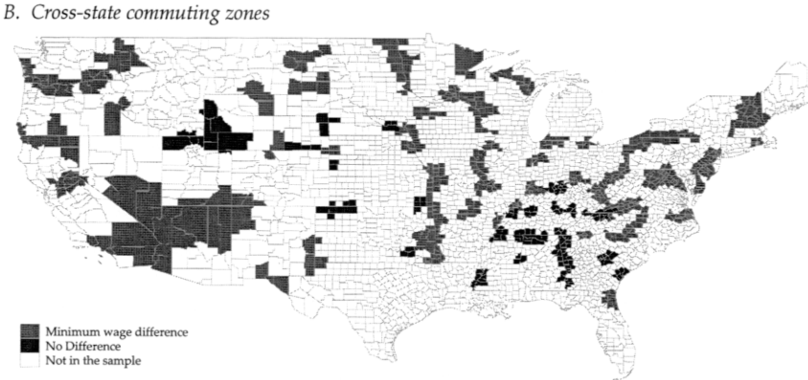
Notes. State means and variances calculated using annual State minimum wage data over 1990–2012. The shading on the maps partitions the States into above- and below-median values.

Figure 2 Maps of cross-state border county pairs and cross-state commuting zones

A. Cross-state border county pairs



B. Cross-state commuting zones



Notes. A: Red and blue colored counties indicate cross-State border county pairs. Counties colored red are part of pairs with minimum wage variation between the counties at some point in time in the sample. Darker shades indicate balanced sample. Balanced sample are those counties with employment and earnings information for all quarters, 1990–2010. Unbalanced sample includes those with limited information during that period. B: Red and blue colored counties constitute cross-State commuting zones. Counties colored red are part of commuting zones with minimum wage variation within the commuting zone at some point in time in the sample.

The CHAIRMAN. Thank you, Dr. Reich.

Bishop Blaire, welcome and please proceed.

STATEMENT OF THE MOST REVEREND STEPHEN E. BLAIRE, BISHOP OF STOCKTON, CHAIRMAN, COMMITTEE ON DOMESTIC JUSTICE AND HUMAN DEVELOPMENT, U.S. CONFERENCE OF CATHOLIC BISHOPS, STOCKTON, CA

Bishop Blaire. Thank you. Good afternoon, everyone. Chairman Harkin, Ranking Member Alexander, and members of the committee, on behalf of the U.S. Conference of Catholic Bishops, I thank you for the invitation to address you today. I am pleased to be here today to commemorate the Fair Labor Standards Act.

For the Catholic Bishops of the United States, advocating a just minimum wage is foundational. I was reminded today about Monsignor John Ryan, who was very instrumental in gaining support and crafting and the passage of the Fair Labor Standards Act.

Every time that Congress or an administration has suggested raising the minimum wage, the bishops have been supportive simply because it is consistent with our teaching, and we see the effects firsthand in the families of our parishioners and in our own communities. I am not an economist, but rather a pastor and a teacher concerned with the protection of human life and dignity. I will not speak to the specifics of policies, but rather to the conditions that must emerge to make these policies just.

A just wage is a moral issue. For me, it is also personal. My own father, after being a widower twice in life and raising 11 children, remarried at the age of 59. At the age of 70, he was compelled to re-enter the workforce to keep food on the table for his wife and three children of which I was one. So after a lifetime of professional work and then retirement, he had to work again until he was 80 packing groceries. And without this job, we would not have had enough to eat or a roof over our heads.

The church teaches that human labor has an inherent dignity, so wages gained from work should affirm that dignity. A just wage confirms the dignity of the worker. And, conversely, a wage that does not even allow a worker to meet basic needs demeans human dignity. That means the worker becomes just another commodity.

Mr. Chairman and members of the committee, wages must also support families. If families are the fundamental seed of society, then decent jobs with just wages are the water that allows them to grow. Work should be a ladder out of poverty for families. It should not trap them in poverty. Yet this is where we find ourselves today, with a growing number of working families struggling to survive.

Our diocese of Stockton in the San Joaquin Valley of central California includes some of the deepest and most pervasive poverty in our country. Every day, I see working families struggling to survive. What do they pay for this month, school clothes for the kids or gasoline to get to work, fresh produce for a healthy diet or the rent? No family should be faced with such extreme choices. And while they are grateful for community or government support, they do not want to rely on the generosity of others. They want to be self-sufficient.

Employers have a moral obligation to pay a just wage, and the government has an obligation to ensure it. One of the great challenges of business leaders today is to bring moral values and ethics into the business world, so that the economy truly serves the person. Businesses certainly need to be profitable, but that profit must not come at the expense of workers.

Catholic teaching has always endorsed the potential benefits and freedoms of a market economy. But it also points out that the considerable energies and powers of the market shall not go unchecked and must protect human life and dignity while advancing the common good. Setting a just minimum wage is merely one way the government has acted to do that.

To conclude, I am increasingly concerned with the growing scourge of inequality. Americans believe we already have an intolerable level of inequality and would like to live in a more equal society. Addressing these severe imbalances will take a steadfast commitment on the part of everyone to placing the common good above self-interest.

We can begin the process of fixing our economy by returning the workers to the center of economic life with decent jobs that pay decent wages. Increasing the minimum wage to a level that reflects the real economic reality faced by families is one way to draw a circle of protection around them and build a just economy.

Thank you again, and I will welcome any questions you may have.

[The prepared statement of Bishop Blaire follows:]

PREPARED STATEMENT OF THE MOST REVEREND STEPHEN E. BLAIRE

Chairman Harkin, Ranking Member Alexander, and members of the committee, on behalf of the United States Conference of Catholic Bishops (USCCB), I thank you for the invitation to address you today. I am Stephen Blaire, Bishop of the Catholic Diocese of Stockton, CA and Chairman of the Committee on Domestic Justice and Human Development at the United States Conference of Catholic Bishops.

We are here today to celebrate the 75th anniversary of the Fair Labor Standards Act, signed in 1938, which codified for the first time a national minimum wage and other important worker protections, and all but eliminated child labor. It is very appropriate that we undertake this discussion in the current economic and political climate. I will address later the bishops' support for the Fair Labor Standards Act and subsequent efforts to raise the minimum wage, but here I will mention that the support is rooted in Pope Leo XIII's seminal encyclical *Rerum Novarum*, which stated that a worker's wages, to be just and consistent with human dignity, must be sufficient to support a family in comfort and even leave some for savings.[1]

I testify before you today not as an economist, a statistician, or a labor market expert, but rather as a pastor and teacher concerned with human development and the protection of human dignity. I will not speak to the specifics of policies, but rather to the conditions that must emerge in society and in the family to make those policies just.

A just wage is a moral issue; however for me it is also a personal one. After being a widower twice in life and raising 11 children, my father in 1939 remarried at the age of 59. Eleven years later, at the age of 70, he was compelled by economic factors to re-enter the workforce to keep food on the table for his wife and three children, of which I was one. After a lifetime of professional work and retirement, he worked again until he was 80 packing groceries. Without this job we would not have had enough to eat or a roof over our heads as a family, and when he died there would have been no Social Security benefits earned for the surviving family.

Five years into a desperately slow economic recovery, deep economic problems persist:

- Over 4 million people have been jobless for over 6 months, and that does not include the millions more who have simply given up looking for work;
- The gap between unemployed/underemployed job seekers and open positions is extraordinary: for every available job, there are as many as five people vying for it;[2]
- Millions of families live with anxiety and uncertainty as they cope with stagnant or falling wages, forcing them to take second or third jobs and even forcing some teenage children into the workforce prematurely to help support the family;
- Half of the jobs in this country pay less than $27,000 a year,[3] and
- Poverty remains high: there are over 46 million people living in poverty, 16 million of them children. In other words, over one in five children in our country lives in poverty.[4]

[1] Pope Leo XIII, *Rerum Novarum*, 46, 1891. Available: *http://www.vatican.va/holy_father/leo_xiii/encyclicals/documents/hf_l-xiii_enc_15051891_rerum-novarum_en.html.*

[2] Determined by taking the amount of unemployed persons plus the amount of persons involuntarily working part-time in April 2013 (Available: *http://www.bls.gov/news.release/archives/empsit_05032013.pdf*) and dividing by the number of job openings (Available: *http://www.bls.gov/news.release/pdf/jolts.pdf*). All data from the Bureau of Labor Statistics.

[3] Social Security Administration, *Wage Statistics for 2011*, 2013, Available: *http://www.ssa.gov/cgi-bin/netcomp.cgi?year=2011*.

[4] United States Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2011*, 2012. Available: *http://www.census.gov/prod/2012pubs/p60-243.pdf*.

The causes of poverty and our broken economy are many, but as Pope John Paul II noted in *Laborem Exercens*:

> . . . human work is a *key*, probably *the essential key*, to the whole social question, if we try to see that question really from the point of view of man's good. And if the solution—or rather the gradual solution—of the social question, which keeps coming up and becomes ever more complex, must be sought in the direction of "making life more human," then the key, namely human work, acquires fundamental and decisive importance.[5]

In other words, if we are going to fix the American economy, then a discussion of workers' wages is a good place to start.

Work has an inherent dignity, so just wages gained from work support that dignity. Insufficient wages violate it.

Mr. Chairman, the Church has a rich tradition on human labor rooted in the belief that work has an inherent dignity. The new bishop of Rome, Pope Francis, recently remarked that

> "[w]ork, to use a metaphor, 'anoints' us with dignity, fills us with dignity, makes us similar to God, who has worked and still works, who always acts; it gives one the ability to maintain oneself, one's family, to contribute to the growth of one's own nation."[6]

Hence the importance of the worker's wage: since work has an inherent dignity, then there must be little doubt that wages are more than a mere product of the economy. A just wage confirms the dignity of the worker. And conversely, a wage that does not even allow a worker to support a family or meet basic human needs tears her down and demeans her dignity. The worker becomes just another commodity.

I think this is the type of situation Pope Francis was talking about when he said earlier this month:

> "Man is not in charge today, money is in charge, money rules. God our Father did not give the task of caring for the earth to money, but to us, to men and women: we have this task! Instead, men and women are sacrificed to the idols of profit and consumption: it is the 'culture of waste.' If you break a computer it is a tragedy, but poverty, the needs, the dramas of so many people end up becoming the norm.[7]

The Working Poor Families Project recently reported that in 2011 there were 10.4 million low-income working families.[8] [9] Those families include 23.5 million children. Work should be a ladder out of poverty for families, it should not trap them in poverty. Yet this is where we find ourselves—a growing number of families are working but do not make enough to live in dignity. It is a scandal that the richest country in the world has allowed over 23 million children in working poor families to become the norm. These families struggle to provide their children with the adequate nutrition, school supplies, clothes, and security they need for their educational, social, and emotional development. I am sure members of the committee will agree that we must not tolerate so many children living under such circumstances.

Many of these low-income workers have to rely on charity or the safety net to supplement their wages in order to meet basic needs. For example, as you know funding for the Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps) is currently being debated. Many people do not know that the majority of SNAP households with a capable, working-age adult are working. The percentage goes up in households with children. It is not difficult to identify the problem here: unjust wages. If Congress is concerned with rising costs in the SNAP program, Congress should raise the wages of those working families, so they can afford food on their own.

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[5] Pope John Paul II, *Laborem Exercens*, 3, 1981. Available: *http://www.vatican.va/holy_father/john_paul_ii/encyclicals/documents/hf_jp-ii_enc_14091981_laborem-exercens_en.html.*

[6] Pope Francis, "General Audience," May 1, 2013. Available: *http://www.vatican.va/holy_father/francesco/audiences/2013/documents/papa-francesco_20130501_udienza-generale_en.html.*

[7] Pope Francis, "General Audience," June 5, 2013. Available: *http://en.radiovaticana.va/news/2013/06/05/pope_at_audience:_counter_a_culture_of_waste_with_solidarity/en1–698604.*

[8] The Working Poor Families Project, "Low-Income Working Families: The Growing Economic Gap," 2012. Available: *http://www.workingpoorfamilies.org/wp-content/uploads/2013/01/Winter–2012_2013-WPFP-Data-Brief.pdf.*

[9] This report defines "working poor" as 200 percent of the Federal poverty level, or $45,622 for a family of four.

The family is the fundamental unit of society, and work is the principal means by which families gain the resources to form and sustain themselves.

The importance of the family for individual human development on all levels has been well established. It is in and among our family that we learn to love and accept love, forgive and be forgiven, argue and reconcile—we learn how to interact with each other as humans.

In a certain sense, the family is organized around work. Without the remuneration that comes from our work, humans would not have the resources to form or sustain families. It was true two thousand years ago with the family that lived in Nazareth; it was true in 1891 at the time of Pope Leo XIII; and it is as apparent as ever now. If families are the fundamental seed of society, then decent jobs with just wages are the water that allows them to grow.

Our diocese of Stockton, in the San Joaquin Valley of Central California, includes some of the deepest and most pervasive poverty in our country. Every day, I see families struggling to survive under the weight of too little food and too many bills. What do they pay for this month—school clothes for the kids or gasoline to get to work? Fresh produce for healthy diets or the rent? No family should be faced with such extreme choices.

So it is not just a lack of work that creates this pressure, but for many it is a lack of decent wages. Many if not most of the families I encounter with these problems have an income, but it is not enough to support them. Mom works at the supermarket. Dad has two jobs as a short order cook. And the people who are unemployed are desperate for work. Many families I encounter in this position, although they are grateful for the support of food pantries, donation centers, and the government, do not want to rely on the generosity of others. They want to be self-sufficient.

Employers have a moral obligation to pay a just wage . . .

Catholic teaching has long recognized that everyone and all institutions in an economy have an obligation to protect human life and dignity, and advance the common good. As the Catholic bishops have pointed out,

> "We judge any economic system by what it does for and to people and by how it permits all to participate in it. The economy should serve people, not the other way around." [10]

A vital piece of the conversation that I believe has been missing is the obligation of employers to pay just wages. The Church teaches:

> A *just wage* is the legitimate fruit of work. To refuse or withhold it can be a grave injustice. In determining fair pay both the needs and the contributions of each person must be taken into account.
>
>> "Remuneration for work should guarantee man the opportunity to provide a dignified livelihood for himself and his family on the material, social, cultural, and spiritual level, taking into account the role and the productivity of each, the state of the business, and the common good."
>
> Agreement between the parties is not sufficient to justify morally the amount to be received in wages.[11]

Unfortunately, too many families are forced to work two or more jobs just to make enough money to purchase basic needs. Possibly this is because the current minimum wage yields an annual salary of about $15,080. This amount is below the poverty level for any size family that includes even one child, according to the Census Bureau.[12] When the minimum wage does not even permit a family to raise a child, it has failed to guarantee a worker "the opportunity to provide a dignified livelihood for himself and his family." This is unacceptable.

Private enterprises, at their best, create decent jobs, contribute to the common good, and pay wages that help workers form and nurture families. Some businesses, unfortunately, chase profits and success at the expense of workers' dignity and, in the most tragic cases—as we have seen recently in Bangladesh, Texas, Arizona, and Louisiana—their lives. Business leaders, who have been given much and have a legitimate vocation, must fight the urge to live a

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[10] United States Conference of Catholic Bishops, *Economic Justice for All*, 13, 1986. Available: *http://www.usccb.org/upload/economic_justice_for_all.pdf.*

[11] Libreria Editrice Vaticana, *Catechism of the Catholic Church*, 2434, 1992. Available: *http://www.usccb.org/beliefs-and-teachings/what-we-believe/catechism/catechism-of-the-catholic-church/epub/index.cfm#.*

[12] United States Census Bureau, *Income, Poverty, and Health Insurance Coverage in the United States: 2011*, p. 49. 2012. Available: *http://www.census.gov/prod/2012pubs/p60-243.pdf.*

"divided life. . . . Dividing the demands of one's faith from one's work in business is a fundamental error which contributes to much of the damage done by businesses in our world today, including overwork to the detriment of family or spiritual life. . . ." [13]

One of the great challenges of business leaders today is to bring moral values and ethics into the business world, so that the economy truly serves the person. Businesses certainly need to be profitable for the economy to function properly, but that profit must not come at the expense of workers.

The government has an obligation to ensure it.

Mr. Chairman, I have been discouraged by those in Congress, with some notable exceptions, who seem to not have a real concern with the enduring decent jobs crisis in this country. There are some in Congress who seem to think our current situation is acceptable. While it is certainly the primary responsibility of employers to pay workers a just wage, it is proper for government to take steps to ensure this takes place. Catholic teaching has always endorsed the potential benefits and freedoms of a market economy. It also points out that the considerable energies and powers of the market shall not go unchecked, and must always be oriented toward protecting human life and dignity, and advancing the common good.

Blessed John XXIII wrote about the obligation of the State:

> As for the State, its whole raison d'etre is the realization of the common good in the temporal order. It cannot, therefore, hold aloof from economic matters. On the contrary, it must do all in its power to promote the production of a sufficient supply of material goods, "the use of which is necessary for the practice of virtue." It has also the duty to protect the rights of all its people, and particularly of its weaker members, the workers, women and children. It can never be right for the State to shirk its obligation of working actively for the betterment of the condition of the working man.[14]

Setting a just minimum wage is merely one way government has historically acted to protect the dignity of the worker, encourage family formation, and ensure children have access to basic human needs.

The Catholic Church has been a consistent and vocal supporter of just wages, in teaching and in action.

Mr. Chairman, I am pleased to be here to commemorate the 75th anniversary of the Fair Labor Standards Act (FLSA) because of its central importance in the history of protecting worker rights in this country. FLSA was a vital step in acknowledging the dignity of the worker, and it dovetailed with the established Church teaching on workers.

In 1891, when Pope Leo XIII wrote *Rerum Novarum* in the context of the Industrial Revolution, his "central theme [was] the just ordering of society." [15] He established the necessity to safeguard the dignity of the worker, the moral imperative of a just wage, and the vital role of the government to assuring this. These principles of Leo have been affirmed and expanded by succeeding popes, the conference of Catholic bishops here in the United States and bishops around the world, and has been raised up in multiple forms by influential Catholic thinkers.

In 1919 the National Catholic War Council, a precursor to our current USCCB, issued its recommendations for rebuilding America after World War I in its "Program for Social Reconstruction." In it, the bishops unequivocally supported a living wage, saying:

> ". . . a living wage is not necessarily the full measure of justice. All the Catholic authorities on the subject explicitly declare that this is only the *minimum* of justice. . . . Since our industrial resources and instrumentalities are sufficient to provide more than a living wage for a very large proportion of the workers, why should we acquiesce in a theory which denies them this measure

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[13] Pontifical Council for Justice and Peace, *Vocation of the Business Leader*, 10, 2011. Available: *http://www.stthomas.edu/cathstudies/cst/conferences/Logic%20of%20Gift%20Semina/Logicofgiftdoc/FinalsoftproofVocati.pdf.*

[14] Pope John XXIII, *Mater et Magistra*, 20, 1961. Available: *http://www.vatican.va/holy_father/john_xxiii/encyclicals/documents/hf_j-xxiii_enc_15051961_mater_en.html.*

[15] Pontifical Council for Justice and Peace, *Compendium of the Social Doctrine of the Church*, 89, 2004. Available: *http://www.vatican.va/roman_curia/pontifical_councils/justpeace/documents/rc_pc_justpeace_doc_20060526_compendio-dott-soc_en.html.*

of the comforts of life? Such a policy is not only of very questionable morality, but is unsound economically."[16]

For the Catholic bishops of the United States, advocating a just minimum wage is foundational. Every time Congress or an Administration has suggested raising the minimum wage, the bishops have been supportive simply because it is consistent with our teaching and we see the effects firsthand in the families of our parishioners and our own communities.

The Church will continue to be on the side of workers and their families in the struggle to build a just and fair economy.

Mr. Chairman, to conclude, I am increasingly concerned with the growing scourge of inequality in our country. Recently, a study came out about Americans' attitudes about inequality.[17] The results were jarring: Americans believe we already have an intolerable level of inequality, and would like to live in a more equal society. The reality is much more severe than the perception, which makes our desired society even further away from the reality.

Pope Emeritus Benedict XVI, in *Caritas in Veritate*, gave us a very clear measure of a just economy:

> The dignity of the individual and the demands of justice require, particularly today, that economic choices do not cause disparities in wealth to increase in an excessive and morally unacceptable manner, and that we continue to prioritize the goal of access to steady employment for everyone. . . . Through the systemic increase of social inequality . . . not only does social cohesion suffer, thereby placing democracy at risk, but so too does the economy, through the progressive erosion of "social capital": the network of relationships of trust, dependability, and respect for the rules, all of which are indispensable for any form of civil coexistence.[18]

He could have been speaking about the United States. In recent decades, gains from economic growth have been spread very unevenly. Last year, the Congressional Budget Office reported that over the past 30 years, the average income of the wealthiest 1 percent has increased 275 percent. The income of the poorest 20 percent among us increased, on average, by less than 20 percent.[19] Most recently, the disparity has grown more extreme. Over the last 2 years, median household income has flatlined for the poorest workers, but for the middle class it has actually gone down.[20]

Mr. Chairman, these severe imbalances are not inevitable, but the solutions are varied, numerous, and complicated. Addressing what ails our economy will take patience, persistence, and a steadfast commitment on the part of everyone to placing the common good above self-interest.

We can begin the process of fixing our economy by returning the worker to the center of economic life. One of the best ways to do that is with decent jobs that pay just wages, thereby honoring human dignity and restoring hope to workers and families. Increasing the minimum wage to a level that reflects the real economic reality faced by families today would go far in building an economy worthy of the humans that operate in it.

The CHAIRMAN. Thank you very much, Bishop Blaire.

Mr. Shelton, welcome and please proceed.

STATEMENT OF HILARY O. SHELTON, WASHINGTON BUREAU DIRECTOR AND SENIOR VICE PRESIDENT FOR ADVOCACY AND POLICY, NAACP, WASHINGTON, DC

Mr. SHELTON. Thank you and good afternoon, Chairman Harkin, Ranking Member Alexander, and members of this esteemed com-

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[16] Administrative Committee of the National Catholic War Council, *Social Reconstruction: A General Review of the Problems and Survey of the Remedies*, p. 14, 1919.

[17] Michael I. Norton and Dan Ariely, "Building a Better America—One Wealth Quintile at a Time," *Perspectives on Psychological Science* 6 (2011).

[18] Pope Benedict XVI, *Caritas in Veritate*, 32, 2009. Available: *http://www.vatican.va/holy_father/benedict_xvi/encyclicals/documents/hf_ben-xvi_enc_20090629_caritas-in-veritate_en.html*.

[19] Congressional Budget Office, *Trends in the Distribution of Household Income Between 1979 and 2007*, 2011. Available: *http://www.cbo.gov/publication/42729*.

[20] Lowrey, Annie, "Incomes Flat in Recovery, but not for the 1%," *New York Times*, February 15, 2013. Available: *http://www.nytimes.com/2013/02/16/business/economy/income-gains-after-recession-went-mostly-to-top–1.html*.

mittee, including our good friends, Senators Warren, Casey, and Murphy. I greatly appreciate being invited to testify before this storied panel to discuss the minimum wage, the Fair Labor Standards Act, and the impact these policies have had on communities of color, including African-Americans.

I'd also like to thank you, Mr. Chairman, for all that you are doing and all that you have done to highlight the Fair Labor Standards Act, the minimum wage, and the need for legislation to increase the current minimum wage and index it to inflation.

My name is Hilary Shelton. As you mentioned, I'm also 16 years as the Director of the NAACP's Washington Bureau and Federal legislative and policy arm of the National Association for the Advancement of Colored People. Founded in 1909, the NAACP is our Nation's oldest, largest, and most widely recognized grass roots-based civil rights organization. We currently have more than 2,200 membership units across the Nation with members in every one of the 50 States.

The NAACP strongly supports the Fair Minimum Wage Act, S. 450 and H.R. 1010 in the 113th Congress. In order to fully understand our current position, let me begin by putting our support in a historical context.

In 1932, when the Congress was first considering the Fair Labor Standards Act, Walter White was our association's executive director. He recognized the potential positive impact a minimum wage could have on racial and ethnic minority workers, especially African-Americans, and thus worked tirelessly to ensure that all workers were covered by key provisions in that act, including a 40-hour work week, mandatory overtime pay, and a minimum wage.

In fact, Executive Director White strongly supported a version of FLSA which covered all workers. And while we were disappointed that the initial law did not cover agricultural and domestic workers, two areas which at the time were dominated by African-American laborers, in order to appease the segregationist element of the U.S. Senate, we were, nevertheless, pleased with the new law.

Since that time, we have been strong supporters for increasing the minimum wage, expanding its reach, and tying it to inflation so not to get caught up in the whims of petty partisan politics. And while we are encouraged by the fact that the minimum wage has increased since its initial 25 cents an hour, we continue to fight to ensure that the buying power of the minimum wage keeps up with the cost of living in the United States and that minimum wage earners, by definition, hard-working men and women, are able to keep their families out of poverty.

Mr. Chairman, members of the committee, as you know, throughout the past 75 years, every time we debate increasing the minimum wage, we hear the argument that an increase in the minimum wage will result in a decrease in available jobs. Given the consistently high unemployment rate among African-Americans, we take these arguments very seriously. The NAACP is very careful to not advocate for any policy which would contribute to a higher unemployment rate.

What we have found, however, is that the opposite of this argument is actually true. When American workers have a higher income and more income security, they're likely to spend more, thus creating more jobs. In fact, the NAACP believes that the Fair Minimum Wage Act of 2013 would generate more than $32 billion in new economic activity, translating into 140,000 new full-time jobs.

Furthermore, although African-Americans make up just a little over 12 percent of the U.S. population, we are over 14 percent of those who will see a much-needed increase in their salaries. Among those who will particularly benefit from an increase in the minimum wage are women of color. Women represent nearly two-thirds of the minimum wage workers across the country. Furthermore, African-American women were just under 13 percent of all employed women in 2012, but more than 15 percent of women who made a minimum wage were African-American.

Given that more women of color are the primary breadwinners for their families than their Caucasian counterparts, the end result is the perpetuation of poverty among families of color. According to the 2011 census data, African-American women are the heads of their household almost 29 percent of the time, compared to white women, who are heads of their household less than 9 percent of the time.

Furthermore, an increase in the minimum wage would have a tremendous impact on children as well, given that the majority of African-American children nationwide, 54 percent, are being raised by single mothers. An African-American woman who works full-time year-round at the current minimum wage earns just $14,500 annually. That's nearly $3,600 below the Federal poverty line for a mother with two children. The NAACP will continue to advocate for policies that we strongly believe will help working African-Americans and, indeed, all Americans who work, such as the Fair Minimum Wage Act.

In closing, Mr. Chairman, I'd like to thank you again for your courage and your leadership on this issue. The NAACP stands strongly in support of your legislation, the Fair Minimum Wage Act, S. 450, and I stand ready to answer your questions. I look forward to that dialog.

[The prepared statement of Mr. Shelton follows:]

PREPARED STATEMENT OF HILARY O. SHELTON

Good afternoon, Chairman Harkin and Ranking Member Alexander and members of this esteemed committee. I greatly appreciate being invited to testify before this storied panel to discuss the minimum wage, the Fair Labor Standards Act, and the impact these polices have had on communities of color, specifically African-Americans. I would also like to thank you, Mr. Chairman, for all that you are doing and all that you have done to highlight the impact of the Fair Labor Standards Act, and the Minimum Wage on American workers, and the need for legislation to increase the current minimum wage and index it to inflation.

My name is Hilary Shelton, and I am the director of the NAACP Washington Bureau and the senior vice president for Policy and Advocacy. Founded more than 104 years ago, in 1909, the National Association for the Advancement of Colored People, the NAACP, is our Nation's oldest, largest, and most widely recognized grassroots-based civil rights organization. We currently have more than 2,200 membership units across the Nation, with members in every one of the 50 States. For almost 16 years now, I have been the director of the NAACP Washington Bureau, our Association's Federal legislative and political advocacy arm.

The NAACP currently strongly supports The *Fair Minimum Wage Act*, S. 450/H.R. 1010 in the 113th Congress.

But in order to fully understand our current position, let me begin by putting our support in historical context.

When the Congress was considering the Fair Labor Standards Act (FSLA) in the mid-1930s, Walter White was our association's executive director. Walter White recognized the potential positive impact a minimum wage could have on racial and ethnic minority workers, especially African-Americans, and thus worked tirelessly to ensure that all workers were covered by the key provisions of that Act—a 44-hour work week; protections against child labor; overtime protections; and a minimum wage.

A review of NAACP archives shows that during congressional consideration of various "New Deal" legislative proposals, the NAACP spent considerable time and energy expanding our legislative advocacy efforts to ensure that proposals such as the FSLA and the National Recovery Act did not contain provisions which would prevent the benefits of the new laws from reaching African-Americans.[1] In fact, White strongly supported a version of the FLSA which covered all workers, and while we were very disappointed with the fact that the initial law did not cover agricultural or domestic workers—two areas which at the time were dominated by African-American laborers—we were nevertheless pleased with enactment of this law.

Continued advocacy efforts by the NAACP on behalf of African-American workers, including the strengthening and expansion of the FSLA and stronger labor laws, led to the creation of the NAACP Washington Bureau in 1941 with the first director, Clarence Mitchell, who had previously worked for the Federal Fair Employment Practice Committee.

Since that time, we have been strong supporters of increasing the minimum wage and expanding its reach. As early on as 1945, we testified before the House Labor Committee in support of increasing the minimum wage to 75 cents per hour.

The original minimum wage, which was signed into law 75 years ago today, was 25 cents per hour. While I am pleased to report that the minimum wage has increased substantially since then, we are continuing to fight battles to ensure that the buying power of the minimum wage keeps up with the cost of living in the United States, and that minimum wage earners, who by definition are working men and women, are able to keep their families out of poverty.

I should be very clear: throughout the past 75 years, every time we have had a debate about increasing the minimum wage, we hear the argument that an increase in the minimum wage will result in a decrease in available jobs. Given the consistently high unemployment rate among African-Americans, we take this argument very seriously. We at the NAACP are very careful to not advocate for any policy which would contribute to higher unemployment rates. What we have found, however, is that the opposite of this argument is true: when American workers have a higher income, and more income security, they are likely to spend more, thus creating more jobs. And while I understand that another one of my colleagues will be testifying at length on this issue, suffice it to say that the NAACP has never found an increase in the minimum wage to lead to higher unemployment. In fact, as written, the NAACP believes that the *Fair Minimum Wage Act of 2013* would generate more than $32 billion in new economic activity, translating to 140,000 new full-time jobs as higher sales lead businesses to hire more employees.

As I said earlier, the NAACP has consistently been a strong advocate for an increase in the minimum wage, which in turn will lead to greater economic security for millions of Americans, a disproportionate number of whom are African-American. While African-Americans have made great strides in terms of opening doors and making our way up the employment ladder to better paying jobs, we are nevertheless still overrepresented in the area of minimum wage workers. African-Americans and other people of color are disproportionately represented among low-wage workers with African-Americans making up approximately 14.1 percent of those working jobs that earn a minimum wage compared to being approximately 12 percent of the U.S. population.[2]

The minimum wage needs to be increased: what started as 25 cents an hour is now $7.25 an hour. Yet if it were to keep up with inflation over the past 40 years alone, it would be $10.69 per hour. Contrary to stereotypes, low-wage workers whose pay scales are affected by the minimum wage are overwhelmingly adults, many who support families. According to the Bureau of Labor Statistics, three quarters of minimum wage earners are 20 years of age or older. The percentage is even higher for low-wage workers earning $9.00 or $10.00 per hour, whose pay scales would rise if the minimum wage were restored to its historical level. In fact, the median worker age is close to 40 for home health care workers, one of the Nation's

[1] Bracey, Jr., John H. & Meler, August, general editors, Papers of the NAACP part 10 Peonage, Labor and the New Deal, 1913–39. University Publications of America, pp. vii–viii.

[2] Mishel, Lawrence, Economic Policy Institute, "Declining value of the federal minimum wage is a major factor driving inequality," February 21, 2013.

top-growth low-wage occupations. Especially after the recent economic hardships faced by most in the Nation, more and more Americans are spending their careers in low-wage jobs where the minimum wage helps set pay scales.

Among those who would particularly benefit from an increase in the minimum wage are women of color. In 2012, more than 7 percent of African-American women and 8 percent of Hispanic women worked in jobs that paid at or below the Federal minimum wage, such as home health aides, maids and housekeepers, and servers, compared to less than 4 percent of white men.

Given that more women of color are the primary breadwinners for their families than their Caucasian counterparts, the end result is the perpetuation of poverty among families of color. According to the 2011 Census data, African-American women are the heads of their households almost 29 percent of the time, compared to White women, who are the heads of their households less than 9 percent of the time.[3]

An increase in the minimum wage has a tremendous impact on children as well, given that the majority of African-American children nationwide—54 percent—are being raised by single mothers. In 2011, an African-American or a Hispanic woman working full-time, year round who was a relatively low-wage earner (at or below the 25th percentile) for her ethnic group and gender did not earn enough to bring a family of four above the Federal Poverty Level.[4]

A higher minimum wage would disproportionately help women: They constitute a majority (54.5 percent) of those who would benefit, greater than their 48.3 percent share of the workforce. The vast majority (87.9 percent) of those who would be affected by the higher minimum wage are age 20 or over; thus, it is clear the increase would not mainly benefit teenagers. Similarly, single parents would disproportionately benefit from a higher minimum wage: 10.4 percent of those who would be affected are single parents, higher than their 7.5 percent share of the workforce.[5]

Mr. Chairman, members of this committee, there exists today an unacceptable wealth gap which currently exists between races: a 2011 study by the Pew Foundation showed that wealth in White households exceeds that of Hispanic households by a staggering 18 to 1 ratio and by a completely unacceptable 20 to 1 for African-American households.[6] We as a nation and a society can and must do better. The NAACP will continue to advocate for policies that we strongly believe in as helping working African-Americans, and indeed all Americans who work, rise out of poverty, including the *Fair Minimum Wage Act*.

Mr. Chairman, members of the committee, I thank you again for inviting me to testify before you today. It has been an honor. I welcome any questions you may have about the NAACP's long-standing support for the FLSA or the minimum wage or the *Fair Minimum Wage Act*.

The CHAIRMAN. Thank you very much, Mr. Shelton.

And now we'll turn to Mr. Sherk.

STATEMENT OF JAMES SHERK, SENIOR POLICY ANALYST IN LABOR ECONOMICS, HERITAGE FOUNDATION, WASHINGTON, DC

Mr. SHERK. Chairman Harkin, Ranking Member Alexander, and members of the committee, thank you for inviting me to testify. My name is James Sherk, and I'm a senior policy analyst in Labor Economics at the Heritage Foundation. The views expressed in this testimony, however, are my own and are not an official position of the Heritage Foundation.

This afternoon, I want to explain to you why minimum wage increases often hurt disadvantaged workers and do not alleviate poverty. The minimum wage does not help its intended beneficiaries for several reasons.

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[3] Found at *http://www.census.gov/population/race/data/ppl-ba11.html*.

[4] National Women's Law Center: "Closing the Wage Gap: How Raising the Minimum Wage Promotes Fair Pay for Women" June 3, 2013.

[5] Ibid.

[6] Paul Taylor et al., *Twenty to One*: *Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics* (Washington, DC: Pew Research Center Social and Demographic Trends, 2011).

The first reason is that it reduces job opportunities. One of economics most well-established findings is that higher prices cause people to buy less. This applies to businesses hiring workers, too. No enterprise will pay its employees more than the value of what they produce. American Samoa's recent experience illustrates this fact.

The U.S. territory's average income is one-fifth of the mainland United States, and the tuna canning industry dominates its private sector. Until recently, American Samoa had its own minimum wage. However, Congress applied the 2007 increase to it as well, gradually raising its minimum wage to the Federal rate. This was the economic equivalent of raising the U.S. minimum to about $20 an hour.

In May 2009, the Samoan minimum wage was increased to $4.76 an hour, only part way through the scheduled increase. But it now covered two-thirds of the workers in the island's two tuna canneries. This did not boost the Samoan economy. Instead, one cannery laid off workers, cut benefits, and froze hiring. The other closed entirely. Samoan unemployment went from 5 percent to 36 percent. Real wages fell by 11 percent.

American Samoa's Democratic Governor, Togiola Tulafona, begged Congress to stop raising the minimum wage, when he said,

> "We are watching our economy burn down. Our job market is being torched. Our businesses are being depressed. Our hope for growth has been driven away. How much does our government expect us to suffer?"

Congress hurt the very workers it intended to help.

Now, the U.S. minimum wage applies to far fewer workers, and so it has far less dramatic effects. But the large majority of economic studies find that it costs jobs among the workers it applies to.

The second reason is that the minimum wage causes employers to replace adult employees with teenagers, making it harder for inexperienced adults to gain skills. Higher minimum wages draw more workers with outside support, like suburban teenagers, into the labor market. As they apply for job openings, they crowd out lower-income adults. Research shows that minimum wage hikes have larger effects on adult employment than on total employment.

Even the studies that conclude that the minimum wage does not reduce total employment, like David Card's in the 1990s, find employers substitute teenage workers for adults. Researchers at Boston University found that an increase covering one-fifth of restaurant workers would increase the odds that a high school student got hired at a restaurant instead of an adult by 25 percent.

This effect makes it harder for disadvantaged adults to gain the skills necessary to rise out of poverty, because minimum wage jobs are entry level positions. They provide new workers with skills and experience that make them more productive and enable them to command higher pay in the future.

Over half of American workers once made within a dollar of the minimum wage, but few stayed there for long. Two-thirds of minimum wage workers earn a raise within a year. These are learning wage jobs, an important first rung on many workers' career ladders. Adults who did not acquire these skills earlier particularly need access to this first rung if they are to advance. Raising the minimum wage crowds them out of this opportunity.

The third reason is that the minimum wage provides little financial benefit to poor families. In part, this happens because few minimum wage workers live in poor families. But the deeper reason is that the structure of America's social assistance programs deprives low-income workers of the fruits of their labors.

We have many overlapping programs that assist the poor, and they phase out as income rises. However, the government has not coordinated the phase-outs, so poor families face effective confiscatory tax rates as they lose benefits from multiple programs at once.

A poor family generally benefits if the head of the household starts working and takes a full-time minimum wage job. But earnings beyond that level produce little additional net financial benefit until their earnings exceed 150 percent of the poverty level.

Urban Institute calculations showed that a single parent with one child, working a minimum wage job full-time, faces an effective marginal tax rate of 91 percent. That same parent with two children would face a tax rate of 79 percent. And in some States, a raise will cost poor families money. Not even French millionaires face these tax rates.

Now, consider Patty Jones, a hypothetical unemployed single mother in Des Moines, offered a minimum wage job. The Urban Institute calculates that taking that full-time job raises her family's net monthly income by $700. However, a raise to $10.10 an hour decreases her income by over $260. While she makes almost $500 more, she will lose $71 in EITC refunds, pay $37 more in payroll taxes, and $45 more in State income taxes. She also loses $88 in SNAP benefits and $528 in child care subsidies. She would be better off without the raise.

Minimum wage increases make it more difficult for disadvantaged adults to find jobs and gain experience. But the poor workers who do benefit from the jobs actually see little net income gain. A better way to reduce poverty would be to restructure aid programs to reduce the disincentives to work. Few Americans at any income level would work longer hours when facing tax rates exceeding 50 percent.

Thank you. I appreciate the opportunity to explain that the minimum wage often hurts disadvantaged workers and does not alleviate poverty.

[The prepared statement of Mr. Sherk follows:]

PREPARED STATEMENT OF JAMES SHERK

Chairman Harkin, Ranking Member Alexander, and members of the HELP Committee, thank you for inviting me to testify this afternoon. My name is James Sherk. I am a senior policy analyst in Labor Economics at The Heritage Foundation. The views I express in this testimony are my own, and should not be construed as representing any official position of The Heritage Foundation.

Supporters of the minimum wage intend it to lift low-income families out of poverty. Unfortunately, despite these good intentions, the minimum wage has proved ineffective at doing so. Indeed, it often holds back many of the workers its proponents want to help. Higher minimum wages both reduce overall employment and encourage relatively affluent workers to enter the labor force. Minimum wage increases often lead to employers replacing disadvantaged adults who need a job with suburban teenagers who do not.

This can have long-term consequences. Minimum wage positions are typically learning wage positions—they enable workers to gain the skills necessary to become more productive on the job. As workers become more productive they command higher pay and move up their career ladder. Two-thirds of minimum wage workers earn a raise within a year. Raising the minimum wage makes such entry-level positions less available, in effect sawing off the bottom rung of many workers' career ladders. This hurts these workers' career prospects.

Even if minimum wage workers do not lose their job, the overlapping and uncoordinated design of U.S. welfare programs prevents those in need from benefiting from higher wages. As their income rises they lose Federal tax credits and assistance. These benefit losses offset most of the wage increase. A single mother with one child faces an effective marginal tax rate of 91 percent when her pay rises from $7.25 to $10.10 an hour. Studies also find higher minimum wages do not reduce poverty rates. Despite the best of intentions, the minimum wage has proved an ineffective—and often counterproductive—policy in the war on poverty.

Congress could do more to help low-income families by restructuring and coordinating welfare programs and their associated phase-out rates. No one in America—and especially not low-income workers—should face tax rates in excess of 50 percent.

HISTORY OF THE MINIMUM WAGE

Congress instituted the minimum wage in 1938 as part of the Fair Labor Standards Act (FLSA). The first minimum wage stood at 25 cents an hour. The last minimum wage increase occurred in 2007, when Congress raised the rate in steps from $5.15 an hour that year to $7.25 an hour in July 2009. The District of Columbia and 19 States have also established local minimum wages higher than the Federal rate. The highest State minimum wage in the country occurs in Washington State at $9.19 an hour. The average minimum wage in the U.S.—including higher State rates—currently stands at $7.57 an hour.[1]

Over the past 65 years the minimum wage has varied considerably in inflation-adjusted buying power. It has averaged $6.60 an hour in purchasing power in 2013 dollars. But it has ranged from a low of $3.09 an hour in late 1948 to a high of $8.67 an hour in 1968.[2] Today's minimum wage buys somewhat more than the minimum wage has historically, although it remains over a dollar an hour below its historical high.[3]

[1] Heritage Foundation calculations using data on State minimum wage rates from the Department of Labor, Wage and Hour Division. The figure is a weighted average, where the weights are each State's respective share of hourly employees in the United States.

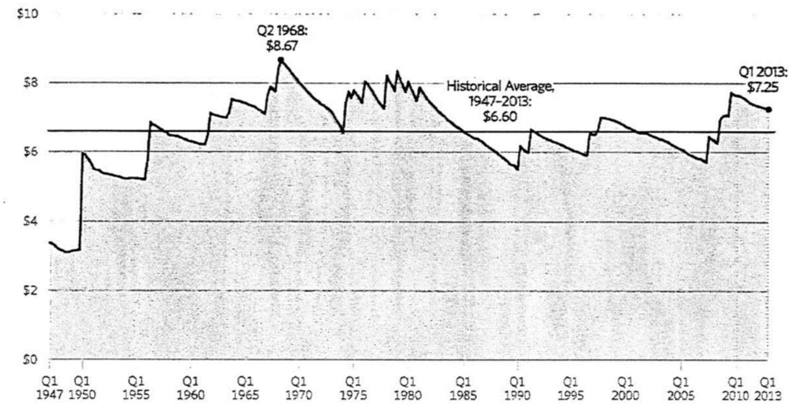
[2] Source: Heritage Foundation calculations using data from the Department of Labor, Wage and Hour Division. Inflation adjusted using the Personal Consumption Expenditures (PCE) price index.

[3] Analysis inflation adjusting historical minimum wage rates with the Consumer Price Index (CPI) will report higher real rates. The CPI estimates higher inflation than the PCE index and other chained measures of inflation do. This results in a larger upwards to historical rates to account for inflation. Using the CPI the minimum wage stood at $10.60 an hour in 1968. However, economists widely agree that the Laspreyes fixed-basket methodology the CPI utilizes produces less accurate estimates than a chained-index methodology. Consequently this paper uses the PCE index to adjust for past inflation. See for example Clinton McCully, Brian Moyer, and Kenneth Stewart, "Reconciliation between the Consumer Price Index and the Personal Consumption Expenditures Price Index," Bureau of Economic Analysis Papers, September 2007.

CHART 1

Current Federal Minimum Wage Above Historical Average

FEDERAL MINIMUM WAGE, IN 2013 DOLLARS PER HOUR



Source: U.S. Department of Labor, Wage and Hour Division, http://www.dol.gov/whd/minwage/chart.htm (accessed June 20, 2013), inflation adjusted using the Personal Consumption Expenditures price index.

Congress typically raises the minimum wage only during times of healthy economic growth and low unemployment. In 1990, Congress enacted a minimum wage hike that took effect on April 1 of that year, when unemployment stood at 5.4 percent. Congress voted to raise the minimum wage again in August 1996—when unemployment stood at 5.1 percent. The next vote to raise the minimum wage occurred in May 2007, when unemployment stood at 4.4 percent.[4] Congress has not voted to raise the minimum wage when unemployment stood above 7.5 percent since the Great Depression ended.[5]

WHO EARNS THE MINIMUM WAGE?

Stereotypes of minimum wage earners range from teenagers holding summer jobs to single mothers struggling to support their family. Bureau of Labor Statistics (BLS) data sheds light on who actually makes the minimum wage.

Relatively few Americans do so. In 2011 and 2012, 3.7 million Americans reported earning $7.25 or less per hour—just 2.9 percent of all workers in the United States.[6 7 8] Those who do work in minimum-wage jobs fall into two distinct categories: young workers, usually in school, and older workers who have left school. Most minimum-wage earners fall into the first category; just over half are between the ages of 16 and 24.[9] The rest are 25 or older. Table 1 shows the characteristics of minimum wage workers overall, and broken down by age groups.

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[4] Department of Labor, Bureau of Labor Statistics, "'The Employment Situation," April 1990, August 1996, May 2007.

[5] Although the economy has slipped into recessions after minimum wage increases (such as in 2007), these contractions were not expected when Congress voted.

[6] Heritage Foundation analysis of data from the Current Population Survey (CPS). The Census Bureau and Bureau of Labor Statistics jointly conduct the CPS. All numbers, except average family income and poverty status, come from analysis of the 2011 and 2012 Merged Outgoing Rotation Group (MORG) file of the CPS. Minimum-wage earners were defined as hourly employees paid $7.25 an hour or less. Poverty and family income statistics come from the March supplement to the 2011 and 2012 CPS data. Data available for download at *http://thedataweb.rm.census.gov/ftp/cps_ftp.html* and *https://cps.ipums.org/cps/*.

[7] The 2.9 percent figure includes both salaried and hourly employees. Approximately 5 percent of hourly employees get paid the Federal minimum wage.

[8] These numbers include workers who also earn tip income. Many of those earning less than the minimum wage work in restaurants and make more than the minimum wage after taking tips into account.

[9] 50.5 percent of minimum wage earners are between the ages of 16 and 24.

Table 1.—Demographic Characteristics of Minimum-Wage Workers

	All Employees	Minimum-wage employees		
		All	Age 16–24	Age 25+
Female	48%	63%	60%	67%
White	80%	78%	80%	76%
Black	13%	15%	14%	17%
Asian	4%	3%	2%	4%
Married	47%	23%	5%	41%
Wage and Income Characteristics:				
Working Part Time	19%	67%	79%	54%
Average Family Income	$79,534	$53,113	$65,896	$42,462
At or Below Poverty Line	6%	23%	22%	24%
Above 150 percent of the Poverty Line	89%	65%	68%	62%
Educational Attainment:				
Less than High School	8%	28%	34%	22%
High School Graduate	27%	30%	23%	37%
Some College	28%	34%	40%	29%
Bachelor's Degree	23%	6%	3%	10%
Graduate Degree	13%	1%	0%	2%

Source: Heritage Foundation calculations based on data from U.S. Census Bureau, Current Population Survey (CPS), 2011 and 2012 monthly surveys. Poverty and family income data are from the March Supplement to the 2011 and 2012 CPS. Minimum wage workers are those who report hourly earnings of $7.25 an hour or less.

Minimum-wage workers under 25 are typically not their family's sole breadwinners. Rather, they tend to live in middle-class households that do not rely on their earnings—their average family income exceeds $65,000 a year. Generally, they have not finished their schooling and are working part-time jobs. Over three-fifths of them (62 percent) are currently enrolled in school.[10] Only 22 percent live at or below the poverty line, while two-thirds live in families with incomes exceeding 150 percent of the poverty line. These workers represent the largest group that would benefit directly from a higher minimum wage, provided they kept or could find a job.

Adults who earn the minimum wage are less likely to live in middle- and upper-income families. Nonetheless, three-fourths of older workers earning the minimum wage live above the poverty line. They have an average family income of $42,500 a year, well above the poverty line of $23,050 per year for a family of four. Most (54 percent) of them choose to work part-time, and two-fifths are married.

Many advocates of raising the minimum wage argue it will help low-income single parents surviving on it as their only source of income. Minimum-wage workers, however, do not fit this stereotype. Just 4 percent of minimum-wage workers are single parents working full-time, compared to 5.6 percent of all U.S. workers.[11] Minimum-wage earners are actually less likely to be single parents working full-time than the average American worker.

Though some minimum-wage workers do struggle with poverty, they are not representative of the typical worker in minimum-wage jobs. The data simply does not support the stereotype of minimum-wage workers living on the edge of destitution.

LEARNING WAGE POSITIONS

Most minimum wage jobs are entry-level positions filled by workers with limited education and experience. As Table 1 shows, almost three-fifths of minimum wage workers have no more than a high school education. They work for the minimum wage because they currently lack the productivity to command higher pay.

Minimum-wage jobs give these workers experience and teach them essential job skills. Sometimes these skills are unique to an individual job, such as how to operate a particular piece of equipment. More often they pertain to general employability: the discipline of waking up early to go to work each day, learning how to interact with customers and coworkers, how to accept direction from a boss. These

[10] Heritage Foundation calculations using the 2011 and 2012 Current Population Survey. The months of June, July, and August were excluded to avoid conflating summer breaks with non-enrollment.

[11] Heritage Foundation analysis of data from the Current Population Survey (CPS). A single parent is defined as someone who reports that he or she has one or more of his or her own children present in the household and who is widowed, divorced, separated, or never married. Full-time employees are classified as those working 35 or more hours a week.

skills are essential to getting ahead in the workplace, but difficult to learn without actual on-the-job experience.

Once workers gain these skills they become more productive, and most quickly earn raises. Over two-thirds of workers starting out at the minimum wage earn more than that a year later.[12] Minimum-wage jobs are learning wage jobs—they teach inexperienced employees skills that make them more productive. They are the first step on many workers' career ladders.

While very few Americans currently work for the minimum wage, a substantial number once did so. Over half of Americans started their careers making within $1 of the minimum wage.[13] Most quickly get promoted as their productivity increases.

Workers have a say in how quickly they get promoted. Most minimum-wage earners work part time, and many are students and young adults who desire this flexibility. But minimum-wage workers who choose to work longer hours gain more skills and experience than those who work part-time and, as expected, earn larger raises. A typical minimum-wage employee who works 35 hours or more a week is 13 percentage points more likely to be promoted within a year than is a minimum-wage worker putting in fewer than 10 hours per week.[14]

The notion that workers are trapped earning $7.25 an hour for much of their working lives is mistaken and ignores the primary value of minimum-wage jobs. Their importance lies not so much in the low wages they pay in the present, but in making workers more productive so they can command higher pay in the future.

LABOR DEMAND FALLS AS PRICES INCREASE

One of the central premises of economics is that "demand curves slope downwards"—when prices rise people buy less of a good or service. When gasoline becomes more expensive Americans drive less, and when it becomes less costly Americans drive more. The same applies to business owners. When the price of goods or services they use in production rises, they buy less of them. This includes labor costs—when wages rise employers hire fewer workers. Economists estimate the long-run elasticity of labor demand in the U.S. economy at around -0.3.[15] In other words, a 10 percent increase in labor costs causes employers to cut their workforce by 3 percent. Higher compensation costs without corresponding increases in productivity cause employers to hire fewer workers.

This finding applies to employers of both highly skilled and unskilled workers.[16] Employers will not pay a worker more than their productive value to a firm. Businesses that do so quickly go out of businesses.

AMERICAN SAMOA

The recent experience of American Samoa dramatically illustrates how wage increases reduce employment. The tiny Pacific island chain has been an American territory for over a century. However, American Samoans have a largely separate economy and considerably lower incomes than residents of the continental United States: the average Samoan worker made $12,000 in 2009.[17] The tuna canning industry makes up a significant portion of their private sector.

Until recently American Samoa had a different minimum wage schedule than the continental United States. A committee within the Department of Labor set Samoan wage minimums according to local economic conditions. In January 2007 the minimum wage in the canning industry stood at $3.26 an hour. Unfortunately for American Samoa, Congress applied the 2007 Federal minimum wage increase to the territory. The legislation aligned the Samoan minimum wage with the U.S. rate of $7.25 an hour in 50 cent annual increments.[18]

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[12] David Macpherson and William Even, "Wage Growth Among Minimum Wage Workers," Employment Policies Institute, June 2004, p. 3–5, at *www.epionline.org/studies/macpherson_06–2004.pdf*.

[13] William Carrington and Bruce Fallick, "Do Some Workers Have Minimum Wage Careers," *Monthly Labor Review*, May 2001, pp. 17–27, Table 2.

[14] Macpherson and Even, "Wage Growth Among Minimum Wage Workers," pp. 8–11.

[15] Daniel S. Hamermesh, *Labor Demand* (Princeton, N.J.: Princeton University Press, 1993).

[16] Although studies typically find workers with greater skills have a smaller elasticity of demand.

[17] Government Accountability Office, *American Samoa and the Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began*, Report No. GAO–11–427, June 2011, Figure 11.

[18] *Ibid*., Table 4.

Almost every hourly worker in the tuna canning industry makes less than $7.25 an hour.[19] At that level the minimum wage would cover 80 percent of the islands' hourly workers.[20] This would be the economic equivalent of raising the minimum wage to $20.00 an hour in the continental United States.[21]

By May 2009 the third scheduled minimum wage increase in Samoa took effect, rising to $4.76 an hour and covering 69 percent of canning workers. This did not increase purchasing power, stimulate demand, and raise living standards, as many minimum wage proponents theorize. Instead StarKist—one of the two canneries then located in Samoa—laid off workers, cut hours and benefits, and froze hiring.[22] The other cannery—Chicken of the Sea—shut down entirely in September 2009.[23]

The Government Accountability Office reports that between 2006 and 2009 overall employment in American Samoa fell 14 percent and inflation-adjusted wages fell 11 percent. Employment in the tuna canning industry fell 55 percent.[24] The GAO attributed much of these economic losses to the minimum wage hike.

The Democratic Governor of American Samoa, Togiola Tulafona, harshly criticized this GAO report for understating the damage done by the minimum wage hike. Testifying before Congress Governor Tulafona objected that "this GAO report does not adequately, succinctly or clearly convey the magnitude of the worsening economic disaster in American Samoa that has resulted primarily from the imposition of the 2007 U.S. minimum wage mandate."[25] Governor Tulafona pointed out that American Samoa's unemployment rate jumped from 5 percent before the last minimum wage hike to over 35 percent in 2009.[26] He begged Congress to stop increasing the islands' minimum wage:

> "We are watching our economy burn down. We know what to do to stop it. We need to bring the aggressive wage costs decreed by the Federal Government under control. But we are ordered not to interfere . . . Our job market is being torched. Our businesses are being depressed. Our hope for growth has been driven away . . . Our question is this: How much does our government expect us to suffer, until we have to stand up for our survival."[27]

Samoan employers responded to higher labor costs the way economic theory predicts: by hiring fewer workers. Congress hurt the very workers it intended to help. Fortunately, Congress heeded the Governor's plea and suspended the future scheduled minimum wage increases.

MINIMUM WAGE EMPLOYMENT EFFECTS

Virtually no economist doubts that raising the minimum wage to $20.00 an hour in the mainland United States would have similar consequences. Economists only debate the consequences of small minimum wage increases.

In part this is because, at current rates, the minimum wage affects very few workers, so it has relatively small effects on the overall economy. Even groups considered highly affected by the minimum wage have few minimum-wage workers overall. Just one-fifth of teenagers and restaurant employees work for the Federal minimum wage.[28] Raising the minimum wage by $1.00 an hour—as many States have done—has little effect on most workers, even most teenagers. Consequently, a moderate increase in the minimum wage will have only small effects on the U.S. economy. It affects too few workers to have a larger impact. A law eliminating a tenth of minimum-wage jobs would raise overall unemployment by less than 0.3 per-

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[19] Government Accountability Office, *American Samoa and the Commonwealth of the Northern Mariana Islands*, p. 63.

[20] U.S. Department of Labor, *Impact of Increased Minimum Wages on the Economies of American Samoa and the Commonwealth of the Northern Mariana Islands*, January 2008.

[21] Heritage Foundation calculations using data from the Outgoing Rotation Groups of the 2012 monthly current population survey. $20.00 an hour is the 80th percentile for workers paid hourly wages.

[22] Government Accountability Office, *American Samoa and the Commonwealth of the Northern Mariana Islands* p. 63.

[23] *Ibid*., p. 40.

[24] *Ibid*., Table 2.

[25] Testimony of American Samoa Governor Togiola Tulafona before the Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs of the Committee on Natural Resources, U.S. House of Representatives, September 23, 2011. Opening statement available online at *http://americansamoa.gov/index.php/news-bottom/30-gov-togiola-tells-u-s-congress-minimum-wage-increase-will-destroy-as-economy*.

[26] *Ibid*., Written Testimony, Table 3.

[27] *Ibid*., opening statement.

[28] Department of Labor, Bureau of Labor Statistics, "Characteristics of Minimum Wage Workers—2012," Tables 1 and 4, at *http://www.bls.gov/cps/minwage2012tbls.htm*.

centage point.[29] Congress should not conflate small effects with no effect. The minimum wage does hurt the prospects of the relatively small number of workers it covers.

Until the mid-1990s, labor economists had a consensus that a 10 percent increase in the minimum wage reduced employment of impacted groups (like teenagers) by about 2 percent.[30] Research by David Card of the University of California-Berkeley challenged this conclusion.[31] His research, focusing on case studies of States that raised the minimum wage and States that did not, concluded the minimum wage had no adverse effect on employment. This spurred an explosion of research on the topic. This research coincided with a significant number of States raising their minimum wages above the Federal level in the 1990s and 2000s. These State increases created far more case studies for economists to analyze and permitted panel studies utilizing variation in minimum wage rates across all U.S. States.

Two-thirds of the studies in this "new minimum wage research" utilizing State variation in minimum wages came to the same conclusion that previous economists had: higher minimum wages reduce the employment of less-skilled workers.[32] Among the most methodologically rigorous studies, 85 percent came to this conclusion.

A recent line of papers by Michael Reich, Arindrajit Dube, and Sylvia Allegretto contest these findings.[33] They argue that States that raised their minimum wage above the Federal level (typically in the Northeast and West Coast) have slower underlying employment growth than States that did not raise their minimum wage (typically in the South and Mountain West). They contend that studies finding negative employment effects conflate these pre-existing trends with the effects of higher minimum wages. They find that once researchers control for State or regional trends the negative relationship goes away. They then compared counties that border each other across a State line and concluded higher minimum wages have negligible employment effects on teenagers and restaurant employees.

David Neumark of the University of California-Irvine and William Wascher of the Federal Reserve Board strongly dispute this critique.[34] They show that the evidence for pre-existing trends biasing previous studies is weak. They demonstrate that it takes very specific controls to make the relationship between the minimum wage and job losses disappear. Using more general specifications favored by economists produces the standard conclusion that minimum wage increases cost jobs.

Neumark and Wascher also argue that the many counties compared across State borders have very different economic climates. For example, Dube et al., compare urban Leon County in Florida (the home county of Tallahassee) with its population of 275,000 to rural Grady County, GA—population 25,000. Neumark and Wascher used statistical tests to analyze how closely the labor markets of these cross-border counties resemble each other. They find that among reasonable candidates for comparison, the cross-border counties "appear no better than a random draw."[35]

They conclude that economists should look at data from all States, not just cross-border comparisons, and use standard specifications to control for pre-existing trends. Doing so produces the usual finding that minimum wage increases cost jobs. Raising the price of unskilled labor causes employers to hire fewer unskilled workers.

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[29] The increase in unemployed would probably be less—many of these workers, especially teenagers and college students, would probably drop out of the labor market altogether and no longer count as unemployed.

[30] Charles Brown, Curtis Gilroy, and Andrew Kohen, "The Effect of the Minimum Wage on Employment and Unemployment," *Journal of Economic Literature* Vol. 20, No. 2 (June 1982), pp. 487–528.

[31] David Card and Alan Krueger. "Minimum Wages and Employment: A Case Study of Fast-Food Industry in New Jersey and Pennsylvania," *American Economic Review*, Vol. 48, No. 4 (1994), pp. 772–93.

[32] David Neumark and William Wascher, *Minimum Wages* (Cambridge, MA: The MIT Press, 2008).

[33] See for example Sylvia Allegretto, Arindrajit Dube, and Michael Reich, "Spatial Heterogeneity and Minimum Wages: Employment Estimates for Teens Using Cross-State Commuting Zones," Berkeley, CA: Institute for Research on Labor and Employment, 2009; Sylvia Allegretto, Arindrajit Dube, and Michael Reich, "Do Minimum Wages Really Reduce Teen Employment? Accounting for Heterogeneity and Selectivity in State Panel Data," *Industrial Relations*, Vol. 50, No. 2, pp. 205–40; Arindrajit Dube, T. William Lester, and Michael Reich, "Minimum Wage Effects Across State Borders: Estimates Using Contiguous Counties," *Review of Economics and Statistics*, Vol. 92, No. 4 (2010), pp. 945–64.

[34] David Neumark, Ian Salas, and William Wascher, "Revisiting the Minimum Wage-Employment Debate: Throwing Out the Baby with the Bathwater?" National Bureau of Economic Research Working Paper No. 18681 (2013), *http://www.nber.org/papers/w18681*.

[35] *Ibid*., pp. 27–28.

CROWDING OUT DISADVANTAGED WORKERS

The minimum wage especially hurts disadvantaged workers' job prospects. Higher minimum wages encourage employers to replace less-skilled workers with more productive employees. Given the choice between hiring an unskilled worker for $10.10 an hour and a worker with more experience for the same rate, companies will always choose the more experienced and productive employee.

Higher minimum wages also make working in such jobs more attractive, drawing greater numbers of workers with outside sources of income into the labor market. Many suburban teenagers and college students enter the labor market when the minimum wage rises. As they apply for job openings they crowd out urban teenagers and disadvantaged adults who would have sought the jobs at the previous wages. Overall, the minimum wage reduces disadvantaged workers' employment much more than it reduces overall employment. It causes the very workers, minimum wage advocates most want to help, to have the greatest difficulty finding jobs.

Empirical research consistently bears this out. One recent study examined administrative data from a large retail chain.[36] When the minimum wage rose, the chain slightly reduced overall employment. Surprisingly, however, teenage employment rose in several stores. These teen employment gains came at the expense of larger job losses among adults. The composition of teenage employment also changed, with more teens coming from wealthier neighborhoods and fewer from low-income neighborhoods. The higher wages prompted many suburban teenagers to apply for work. They crowded many low-income adults and youth out of jobs.

Another study examined how teenage employment and school enrollment changed after States raised their minimum wage.[37] It found that when States raised their minimum wage, younger teens and those who had dropped out of school were more likely to become unemployed. At the same time, higher-skill teenagers were more likely get jobs. When they have to pay higher wages, businesses hire higher-skill workers, freezing the least productive workers out of the job market.

Even studies that find the minimum wage has negligible overall employment effects find it decreases the employment of disadvantaged workers. Kevin Lang and Shulamit Kahn of Boston University examined how restaurant employment changed after minimum wage hikes in the late 1980s and early 1990s.[38] They found no evidence that the minimum wage reduced total restaurant employment, but they did find that it dramatically changed the mix of workers that restaurants hired. Teenage and student employment rose, while adult employment dropped.

A higher minimum wage is great news for a high school student working part time to buy an iPhone. It hurts lower-skill adult workers who need work to support themselves and perhaps their families. Making entry-level jobs less available makes it harder for them to gain the skills and experience necessary to advance to better paying jobs. The minimum wage effectively saws off the first rung on their career ladder.

LITTLE BENEFIT TO FAMILIES IN POVERTY

The minimum wage raises the pay of many workers at the cost of some jobs. A lot of advocates for minimum wage increases consider this a good tradeoff. They argue that the gains for the workers who benefit far outweigh the costs to those who lose out. For example, raising the minimum wage by 40 percent—from $7.25 an hour to $10.10 an hour—would cost roughly 8 percent of heavily affected worker groups their jobs (although losses would be larger among the most disadvantaged workers).[39] At first glance this may seem like a good deal.

However, this analysis ignores the way American tax and welfare programs claw back wage gains made by low-income workers. Congress has created many overlapping means-tested benefit programs: the supplemental nutrition assistance program (SNAP, formerly called food stamps), temporary assistance for needy families (TANF), the Earned Income Tax Credit (EITC), child-care subsidies, housing vouchers, and Women, Infants, and Children (WIC) benefits. The government also pro-

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[36] Laura Giuliano, "Minimum Wage Effects on Employment, Substitution, and the Teenage Labor Supply: Evidence from Personnel Data," *The Journal of Labor Economics*, Vol. 31, No. 1 (January 2013), pp. 155–94.

[37] David Neumark and William Wascher. "The Effects of Minimum Wages on Teenage Employment and Enrollment: Evidence from Matched CPS Surveys," in Solomon Polchek, ed. *Research in Labor Economics*, Vol. 15 (Greenwich, Conn.: JAI Press, 1996).

[38] Kevin Lang and Shulamit Kahn, "The Effect of Minimum-Wage Laws on the Distribution of Employment: Theory and Evidence," *Journal of Public Economics*, Vol. 69, No. 1 (July 1998), pp. 67–82.

[39] This assumes an employment elasticity of -0.2.

vides extensive in-kind health care benefits: Medicaid, SCHIP, and the soon to be operating health care exchange subsidies.

These benefits phaseout at different rates as income rises. Earning an additional dollar of income reduces SNAP benefits by 24 cents. Workers in the EITC phaseout range lose 21 cents for each additional dollar they earn. Housing vouchers phaseout at a 30 percent rate. Low-income workers must also pay payroll (15 percent) and income taxes (10–15 percent) on each additional dollar of income. Medicaid operates with a cliff: when workers' incomes exceed a certain threshold, they lose all benefits.

Congress did not coordinate these benefit phase-outs across programs. Consequently low-income workers can face very high effective tax rates as they lose benefits from multiple programs. Consider workers both losing SNAP benefits and landing in the EITC phaseout range. For each additional dollar they earn they pay 15 cents in additional payroll taxes, 15 cents in income taxes, an average of 5 cents in State income taxes, as well as losing 21 cents of their EITC benefit and forgoing 24 cents of SNAP benefits—an effective marginal tax rate of 80 percent. Each extra dollar earned increases their net income by only 20 cents. Not even millionaires pay such high tax rates.

The Congressional Budget Office studied this issue in a report released last year.[40] It found that a single parent with one child earning between $15,000 to $25,000 experiences almost no financial benefit from working additional hours or getting a raise.[41] What they gain in market income they lose in reduced benefits, leaving them no better off.

The academic literature concludes that low-income families financially benefit when the head of the household enters the labor force and takes a job that pays near the poverty level. However, additional hours of work—or higher wages—beyond that generally produce little additional net benefit until earnings exceed 150 to 200 percent of the poverty level.[42]

Unfortunately, minimum-wage workers with incomes below the poverty level fall into this earnings dead zone. A childless adult working full-time for the minimum wage earns $15,080 a year, above the poverty level for one person ($11,490). That adult (or a teenager) qualifies for relatively few Federal benefits. But a single parent working the same job would fall below the poverty level for either one ($15,510) or two ($19,530) children. That single parent qualifies for many means-tested Federal benefits. If the Federal minimum wage rose to $10.10 an hour ($21,008 a year for a full-time job) benefit reductions would claw back the majority of his or her raise.

Table 2 shows the effective marginal tax rates facing full-time workers in various family situations whose incomes rise from $7.25 an hour to $10.10 an hour. The figures come from the Urban Institute's Net Income Change Calculator. Some columns show the effective tax rates when workers participate in all programs for which they are eligible. Others show the tax rate when workers only participate in food stamps and pay their taxes. Note that these figures understate the effective marginal tax rates because they exclude the loss of health care benefits like Medicaid and SCHIP. Even without including health benefits, workers lose at least 50 percent of their benefits and in some cases much more.

[40] Congressional Budget Office, "Effective Marginal Tax Rates for Low- and Moderate-Income Workers," November 2012, *http://www.cbo.gov/sites/default/files/cbofiles/attachments/11-15-2012-MarginalTaxRates.pdf*.

[41] *Ibid*., Summary Figure 1.

[42] Elaine Maag, C. Eugene Steuerle, Ritadhi Chakravarti, and Caleb Quakenbush, "How Marginal Tax Rates Affect Families at Various Levels of Poverty," *National Tax Journal*, Vol. 65, No. 4 (December 2012), pp 759–82.

TABLE 2

Effective Marginal Tax Rates Facing Workers Moving from $7.25 per Hour to $10.10 per Hour (Page 1 of 2)

	SINGLE PARENT, ONE CHILD, PARTICIPATES IN ALL PROGRAMS		SINGLE PARENT, ONE CHILD, FOOD STAMPS/SNAP ONLY		SINGLE PARENT, TWO CHILDREN, PARTICIPATES IN ALL PROGRAMS		SINGLE PARENT, TWO CHILDREN, FOOD STAMPS/SNAP ONLY		MARRIED COUPLE, ONE EARNER, TWO CHILDREN, PARTICIPATE IN ALL ELIGIBLE PROGRAMS	
State	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings
National average	91%	$46.06	61%	$192.59	79%	$102.37	50%	$245.61	62%	$185.43
Alabama	95%	$23.00	64%	$180.00	85%	$72.00	53%	$230.00	60%	$196.00
Alaska	92%	$38.00	58%	$209.00	83%	$84.00	47%	$260.00	73%	$135.00
Arizona	82%	$88.00	57%	$212.00	69%	$152.00	49%	$253.00	55%	$224.00
Arkansas	119%	$(93.00)	66%	$168.00	86%	$69.00	57%	$214.00	55%	$224.00
California	70%	$150.00	57%	$212.00	84%	$78.00	49%	$252.00	75%	$125.00
Colorado	76%	$118.00	56%	$215.00	71%	$144.00	47%	$260.00	55%	$224.00
Connecticut	74%	$130.00	57%	$214.00	115%	$(72.00)	48%	$258.00	55%	$223.00
Delaware	88%	$57.00	54%	$227.00	82%	$90.00	47%	$260.00	55%	$224.00
District of Columbia	84%	$80.00	66%	$169.00	88%	$58.00	55%	$223.00	75%	$122.00
Florida	77%	$113.00	57%	$214.00	69%	$151.00	47%	$260.00	60%	$196.00
Georgia	78%	$107.00	61%	$192.00	70%	$146.00	48%	$259.00	58%	$208.00
Hawaii	115%	$(76.00)	103%	$(15.00)	83%	$82.00	53%	$230.00	80%	$98.00
Idaho	99%	$4.00	56%	$218.00	117%	$(82.00)	47%	$260.00	55%	$224.00
Illinois	83%	$82.00	60%	$196.00	76%	$120.00	51%	$240.00	63%	$184.00
Indiana	81%	$95.00	61%	$193.00	80%	$99.00	52%	$238.00	59%	$205.00
Iowa	153%	$(264.00)	70%	$150.00	79%	$106.00	62%	$186.00	69%	$151.00
Kansas	87%	$63.00	61%	$191.00	82%	$90.00	51%	$244.00	76%	$121.00
Kentucky	97%	$16.00	68%	$156.00	75%	$122.00	48%	$255.00	55%	$224.00
Louisiana	75%	$123.00	62%	$190.00	85%	$74.00	54%	$229.00	57%	$213.00
Maine	73%	$131.00	56%	$219.00	72%	$139.00	48%	$257.00	90%	$48.00
Maryland	86%	$69.00	59%	$202.00	116%	$(77.00)	52%	$237.00	76%	$120.00
Massachusetts	83%	$84.00	61%	$194.00	84%	$80.00	50%	$246.00	88%	$61.00
Michigan	135%	$(171.00)	61%	$194.00	71%	$141.00	53%	$230.00	60%	$199.00
Minnesota	73%	$134.00	62%	$190.00	60%	$197.00	41%	$289.00	47%	$264.00
Mississippi	80%	$97.00	60%	$198.00	73%	$134.00	51%	$244.00	55%	$220.00
Missouri	107%	$(37.00)	61%	$195.00	91%	$46.00	51%	$244.00	69%	$152.00
Montana	138%	$(188.00)	61%	$193.00	79%	$102.00	51%	$243.00	57%	$211.00
Nebraska	146%	$(226.00)	64%	$180.00	71%	$141.00	54%	$229.00	83%	$82.00
Nevada	89%	$52.00	55%	$220.00	74%	$129.00	47%	$260.00	69%	$154.00
New Hampshire	84%	$79.00	56%	$215.00	77%	$116.00	47%	$260.00	75%	$125.00

TABLE 2

Effective Marginal Tax Rates Facing Workers Moving from $7.25 per Hour to $10.10 per Hour (Page 2 of 2)

	SINGLE PARENT, ONE CHILD, PARTICIPATES IN ALL PROGRAMS		SINGLE PARENT, ONE CHILD, FOOD STAMPS/SNAP ONLY		SINGLE PARENT, TWO CHILDREN, PARTICIPATES IN ALL PROGRAMS		SINGLE PARENT, TWO CHILDREN, FOOD STAMPS/SNAP ONLY		MARRIED COUPLE, ONE EARNER, TWO CHILDREN, PARTICIPATE IN ALL ELIGIBLE PROGRAMS	
State	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings	Effective Marginal Tax Rate	Monthly Financial Gain (Loss) on $494 Increase in Paid Earnings
National average	91%	$46.06	61%	$192.59	79%	$102.37	50%	$245.61	62%	$185.43
New Jersey	82%	$90.00	64%	$177.00	85%	$72.00	56%	$219.00	60%	$197.00
New Mexico	89%	$54.00	69%	$155.00	73%	$134.00	55%	$223.00	61%	$193.00
New York	79%	$104.00	67%	$163.00	80%	$97.00	58%	$207.00	74%	$128.00
North Carolina	79%	$102.00	61%	$193.00	72%	$139.00	48%	$257.00	57%	$214.00
North Dakota	146%	$(226.00)	57%	$211.00	68%	$157.00	48%	$256.00	55%	$224.00
Ohio	76%	$118.00	57%	$210.00	71%	$144.00	47%	$260.00	76%	$118.00
Oklahoma	85%	$76.00	61%	$194.00	76%	$117.00	48%	$255.00	57%	$214.00
Oregon	80%	$97.00	56%	$217.00	66%	$166.00	48%	$255.00	55%	$221.00
Pennsylvania	85%	$74.00	68%	$160.00	71%	$145.00	47%	$260.00	55%	$224.00
Rhode Island	77%	$114.00	54%	$229.00	70%	$150.00	47%	$263.00	55%	$222.00
South Carolina	71%	$143.00	56%	$215.00	67%	$161.00	47%	$260.00	55%	$224.00
South Dakota	101%	$(4.00)	57%	$211.00	77%	$115.00	47%	$260.00	55%	$224.00
Tennessee	79%	$106.00	56%	$215.00	90%	$49.00	47%	$260.00	73%	$134.00
Texas	75%	$122.00	55%	$222.00	71%	$144.00	47%	$260.00	55%	$224.00
Utah	85%	$75.00	62%	$188.00	74%	$129.00	50%	$248.00	55%	$224.00
Vermont	99%	$7.00	66%	$168.00	83%	$83.00	56%	$216.00	57%	$211.00
Virginia	77%	$112.00	59%	$202.00	112%	$(59.00)	47%	$260.00	55%	$224.00
Washington	96%	$22.00	57%	$211.00	65%	$171.00	47%	$260.00	55%	$224.00
West Virginia	79%	$102.00	63%	$185.00	76%	$121.00	56%	$218.00	55%	$224.00
Wisconsin	87%	$66.00	61%	$193.00	82%	$90.00	56%	$219.00	58%	$208.00
Wyoming	76%	$117.00	57%	$212.00	67%	$165.00	47%	$260.00	55%	$224.00

Source: Urban Institute, Net Income Change Calculator, *http://nicc.urban.org/netincomecalculator/* (accessed June 20, 2013). Figures are based on the following assumptions: Individual works for 40 hours a week and their hourly wage increases from $7.25 per hour to $10.10 per hour. Parent has a child age 3 or two children ages 3 and 7. the parent pays $700 a month in child care expenses and $600 a month in rent. Program assumptions: Families participating in "All Programs" are assumed to pay State and Federal taxes, including EITC, and participate in Food Stamps/SNAP, TANF, available child-care subsidies, WIC, and housing vouchers. These programs exclude all health-related benefits, including Medicaid, SCHIP, and Obamacare exchange subsidies. Families participating in just SNAP are assumed to recieve food stamps and Earned Income Tax Credit payments, but otherwise not participate in any other State or Federal means-tested programs.

Nationwide, the average single parent with one child who participates in all programs for which they are eligible faces an effective marginal tax rate of 91 percent. The same parent with two children faces an effective tax rate of 79 percent. In some States the raise would actually financially hurt families.

Consider a Patty Jones, a hypothetical single mother in Des Moines, IA, who gets an offer for a job at minimum wage. [43] If she goes from not working to working full-time, her monthly income rises from $1,146 to $1,838. However, if she gets a raise to $10.10 an hour, her monthly income falls to $1,574. She loses over $260. While her market income rises by $494, she loses $71 in EITC refunds, pays $37 more in payroll taxes and $45 more in State income taxes. She also loses $88 in food stamp benefits and $528 in child-care subsidies. Patty would be better off without the raise.

This system makes it very difficult to lift families out of poverty by raising the minimum wage. Higher minimum wages make it more difficult for disadvantaged adults to find jobs. This hurts their finances. However, for those living below the poverty line who keep their job, the raise provides little net benefit. Much or all of what they gain in higher pay gets clawed back as reduced benefits.

College students and teenagers with jobs do benefit from a higher minimum wage; they have few government benefits to lose. But Congress does not raise the minimum wage to help teenagers buy jeans or iPhones. It does so to help families struggling below the poverty line. Current law makes it almost impossible to achieve that goal.

NO EFFECT ON POVERTY

Economic research further shows that raising the minimum wage does not reduce poverty.[44] Economists have studied changes in aggregate State poverty rates when States raise their minimum wage. They have also examined micro-data on individual families' finances when the minimum wage changes. A study finds minimum wages reduce poverty.[45] One other study finds the opposite result.[46] But the overwhelming balance of recent research finds no effect of the minimum wage on poverty.[47] Even David Card, a researcher celebrated by minimum wage advocates, comes to this conclusion.[48]

This should come as a little surprise. Besides reducing job opportunities and the perverse structure of the welfare state, very few poor families have any minimum wage workers. Only 11 percent of the workers who would gain from raising the minimum wage to $9.50 an hour live at or below the poverty line.[49]

In fact, very few poor families have any full-time workers at all. Only 9 percent of adults living below the poverty line work full-time year round. One quarter work part-time. Two-thirds of adults living below the poverty line do not work at all.[50] Raising the minimum wage hurts their job prospects but does nothing to increase their earnings—they have none.

If Congress wants to reduce poverty it should focus on restructuring the welfare state to remove the current disincentives to work. For too many low-income families additional work does not pay. Few Americans at any income level would work longer hours when faced with a tax rate exceeding 50 percent.

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[43] All assumptions are the same as for a single parent with one child as explained in the footnotes of Table 2.

[44] Note that this does not follow directly from the preceding section. Poverty calculations exclude non-cash benefits like Medicaid, SNAP, and housing vouchers.

[45] John Addison and McKinley L. Blackburn, "Minimum Wages and Poverty," *Industrial and Labor Relations Review* Vol. 52, No. 3 (1999), pp. 393–409.

[46] David Neumark, Mark Schweitzer, and William Wascher, "The Effects of Minimum Wages on the Distribution of Family Incomes: A Non-Parametric Analysis," *Journal of Human Resources* Vol. 40, No. 4 (2005), pp. 867–94.

[47] Richard V. Burkhauser and Joseph J. Sabia, "Minimum Wages and Poverty: Will a $9.50 Federal Minimum Wage Really Help the Working Poor?" *Southern Economic Journal*, Vol. 77, No. 3 (January 2010); Richard Vedder and Lowell Gallaway, "Does the Minimum Wage Reduce Poverty?" Employment Policies Institute, June 2001; Jill Jenkins, "Minimum Wages: The Poor Are Not Winners," Employment Policy Foundation, January 12, 2000; Ronald B. Mincy, "Raising the Minimum Wage: Effects on Family Poverty," *Monthly Labor Review* Vol. 113, No. 7 (July 1990); Richard Burkhauser, and Joseph J. Sabia, 2007. "The Effectiveness of Minimum Wage Increases in Reducing Poverty: Past, Present, and Future," *Contemporary Economic Policy* Vol. 25, No. 2 (2007), pp. 262–81; Craig Gundersen, and James Patrick Ziliak, 2004. "Poverty and Macroeconomic Performance Across Space, Race, and Family Structure," *Demography* Vol. 41, No. 1 (2004), pp. 61–86; David Neumark, and William Wascher. 2002. "Do Minimum Wages Fight Poverty?" *Economic Inquiry* Vol. 40, No. 3(2002) pp. 315–33.

[48] David Card and Alan B. Krueger, *Myth and Measurement*: *The New Economics of the Minimum Wage* (Princeton, N.J.: Princeton University Press, 1995).

[49] Burkhauser and Sabia, "Minimum Wages and Poverty: Will a $9.50 Federal Minimum Wage Really Help the Working Poor?"

[50] U.S. Census Bureau, Historical Poverty Tables, Table 25, "Work Experience and Poverty Status for People 16 years Old and Over: 1987–2011," at *http://www.census.gov/hhes/www/poverty/data/historical/hstpov25.xls*.

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The CHAIRMAN. Thank you very much, Mr. Sherk.

Thank you all for your testimonies. We'll start a round of 5-minute questions.

Mr. Reich, we'll start with you. We have conflicting studies here. Mr. Sherk mentioned some studies. My colleague from Tennessee mentioned studies earlier. If there are studies that show that raising the minimum wage costs jobs, what's wrong with those studies? Is there anything wrong with them, or have we just got two different studies that show different things? What is this?

Mr. REICH. You make a very good point, Senator Harkin, namely, that there are studies and there are studies, just like there are—what is it—lies, damned lies, and statistics. The fact is—well, let me give you an example.

I was interviewed a couple of months ago by a TV reporter from San Jose who said, "You know, teen employment has gone way down in the last several years while the minimum wage went up"—I mean, in the period from 2007 to 2009. And I said, "Yes, but the economy went down the toilet. Don't you think that had a bigger effect than the minimum wage?" So the key thing in these studies is to have the right controls, and econometrics has really advanced in the last several years. There's just a lot of bad studies out there.

But newer methods really do show the negative biases in the older studies, and that's why our paper has been accepted and published in one of the top general economics journals, not in one of the third or fourth-tier journals; why the White House has several times, including this morning, went out of its way to refer to our studies as particularly compelling; and why a lead group of economists who were polled by the University of Chicago Business School a couple of months ago found that they favored by 4 to 1 the Harkin-Miller bill. This is a very big change in economists' thinking over previous years, and we didn't have as good methods.

The CHAIRMAN. Is there anything succinctly that you can say or point to as to why some of these studies that Mr. Sherk mentioned are——

Mr. REICH. States that have not had minimum wage increases have been growing faster than States that do, not because of the minimum wage. It can't have that big of an impact. They have been growing for many other reasons, like sunbelt States. And if you don't include for the kind of local controls in your studies, you're comparing States that are in very different economic circumstances.

It's not a random assignment like we have in medical trials when we say, "Well, this group is going to get the real drug, and the other half"—and it's randomized which is getting the placebo. That's not the case in real life, in the minimum wage policy context.

What we do is we get rid of all these—we call them preexisting effects, so we get a cleaner study. I think that's the new standard that econometrics allows us to follow. The intuitive comparison is these——

The CHAIRMAN. If you raise the minimum wage, and you do it broadly—I mean, everybody has to pay it—raise everything up, so the competitive forces would be the same out in society.

Mr. REICH. Yes, and that's another kind of point that a lot of business people—I've seen them testify many times at hearings in California. They'll say, "Well, I'll go out of business if I have to pay the extra amount. Nobody will want to pay $20 for a hamburger." That might be the perspective from their own books. But you have to look in terms of the market as a whole.

And from the point of view of how the labor will adjust, they're going to have an easier time finding workers. Their turnover is going to go down. It's possible their prices will go up a little bit, maybe 10 cents on a $10 entree, but that's not going to—that's how the economy absorbs minimum wage increases.

The CHAIRMAN. Bishop Blaire, some people say that raising the minimum wage won't help the poor because most minimum wage workers aren't poor. In fact, Mr. Sherk said—and I wrote it down—few minimum wage workers live in poor families. Well, should a fair minimum wage be a part of a national effort to address poverty, then?

Bishop BLAIRE. Of course, different data and different statistics are being presented here. I think our main argument is that there is an inherent dignity in work. And, therefore, when you work, you should be paid a just salary and compensation. Whether you're a teenager or 30 years old or 70 years old, you deserve appropriate compensation and not to be exploited.

I would say myself, because we are so deeply concerned about the conditions of poverty in the United States, and from my own experience, that people who live in poverty want to have enough of an income so that they don't have to depend on all these other resources from the government, and the more that they can be responsible for themselves. And while it is a small number of people at the present time who are at minimum wage or below minimum wage, when you raise the minimum wage, people's salaries will go up, and it will help people to address the issue of poverty.

The CHAIRMAN. Thank you, Bishop Blaire. My time has well run out.

Senator Alexander.

Senator ALEXANDER. Thanks, Mr. Chairman.

Thanks to each of you for coming today.

Mr. Sherk, let me ask you to elaborate on the comment that Senator Harkin asked about, that the minimum wage seems to have no effect on poverty. Are there other government programs that have more effect on relieving poverty than a proposal to raise the minimum wage?

Mr. SHERK. Well, again, only about 11 percent of workers in households earning between the current minimum wage and $9.50 an hour was in the paper that was recently published examining this. Only about 11 percent of the adults affected came from families at or below the poverty level. The vast majority of workers who would benefit from the minimum wage increase are not below the poverty line. So you can't reduce overall poverty if you're not benefiting the people who are poor.

One of the huge problems we see facing low-income families is that there are very strong disincentives to work. If you're a single mother working 20 hours a week, and you're getting $8 or $9 an hour, you could maybe work full-time hours, but your family income in many States is not going to increase. The example I gave from your State, Senator Harkin, were calculations from the Urban Institute, who also find this very concerning, that there are just very low incentives to additional work to gain experience.

Now, it's very understandable that if you're a single mother, do you want to spend 20 hours more a week with your child or not? Well, the understandable response is going to be to want to spend more time with your family if you're not coming out any further ahead. But over the course of an entire career, that prevents them from getting the experience and the upward mobility.

I think it would make a lot of sense—the earned income tax credit is a very good program. But we need to restructure the way we've designed these social assistance programs so that you don't have low-income families facing—only keeping, say, 10 cents on the dollar, 20 cents on the dollar when they do more work. That's simply not fair for them. That's not a tax rate that any country even taxes millionaires at, and it prevents people from getting ahead.

Senator ALEXANDER. Mr. Sherk, let me pursue this just a little. Let's say that one would agree that in a rich society, which we relatively are, that wants to be just, that we would hope that individuals would have a certain standard of living. It strikes me that the fairest way to do that is for all of us to share in that responsibility rather than to impose that responsibility on the employer.

And it seems to me that it's not only fairer, but it's more efficient to design government programs—for example, you've got the earned income tax credit, you've got supplemental nutrition, the food stamps, and you have a whole variety of government programs that are directly aimed at low-income Americans. And then you've got other programs, like Pell grants and means-tested programs, that are designed to provide really a floor.

So from an efficiency point of view, isn't that a better way if we want to relieve poverty, to do it through programs that are aimed specifically at people with less money? And, second, wouldn't it be a better way to create an environment to produce the largest number of new jobs not to impose that cost solely on the employer and mandate that the employer take the responsibility that all of us—the argument would go—have to create a certain standard of living?

Mr. SHERK. I would agree with both of those points, Senator. On the issue of the efficiency, you're exactly right. If you target the benefits, like the earned income tax credit, which is conditional on working additional hours—you're not giving it to suburban teenagers, you're not giving it to college students who are working part-time jobs—the benefits are targeted at those who are needy, and you don't have unemployment effects on the adults.

And you don't have an effect where you have more suburban teenagers coming into the labor market and taking the jobs that could have gone to a disadvantaged adult who is in a difficult position and probably needs the income a whole lot more than the teenager does. You don't have those sort of substitution and replacement effects and all the negative consequences.

But the best solution, Senator, would be a strong and healthy growing economy. If you look back at the late 1990s, you had a minimum wage increase in 1996 and 1997, but the fastest wage growth was actually taking place in 1998, 1999, 2000, up and down the income scale. Low-income workers were benefiting. High-income workers were benefiting. Middle class workers were benefiting. Everyone was benefiting from a healthy, robust economy. Unemployment was falling. That is the best jobs program, not government activity, but a good business climate that leads to more job growth and more investment.

Senator ALEXANDER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Alexander.

Senator Casey, then Senators Warren, Murphy, and Sanders.

STATEMENT OF SENATOR CASEY

Senator CASEY. Mr. Chairman, thanks very much. We appreciate the panel's testimony on this important issue.

I wanted to start with the issue of who will be affected by an increase in the minimum wage. And this is mostly a question that affects women and children in large measure. By one estimate—this is according to the Economic Policy Institute—18 million children, which is 23 percent of all children in the country—18 million children will get a raise, in essence, meaning their families will get a raise. And 17 million women will get a raise if we raise the minimum wage.

I believe it's a matter of basic justice and fairness, but it does have the additional benefit of lifting all boats at the same time. That's why, often, labor organizations that don't have anything to gain, really, at all, that already have wage rates set by way of bargaining and arriving at a fair wage, are in favor of it, because they know that it lifts all boats and helps more and more people get out of poverty and get closer and closer to the middle class. So that's the premise upon which I would rest my support, among other reasons.

But, Bishop, when you give testimony, you've got to consider the broader economy and the difficult choices that we face. But I wanted to ask you, and it's, in some ways, the amplification of your testimony. What do you see with—and you're a bishop, not a parish priest, but I guess a lot of days you're acting like a parish priest. But what do you see when you look across your diocese more broadly in terms of where the economy is? Things have moved in the right direction, but still a lot of people are struggling.

Bishop BLAIRE. In my diocese, I have an awful lot of people who are farm workers and people who work in warehouses and an awful lot of people who are working two jobs to put food on the table. So I agree very much with what you are saying, and I do believe that improving the minimum wage is a component. Obviously, it's one component in the bigger picture of jobs and putting people back to work.

But I think you have to have a just compensation, and it does raise and, I think, improve everybody else's salaries, people who are just barely above the minimum wage. So, yes, I see an awful lot of people in the area where I live who really are struggling.

Senator CASEY. And I know that some of the estimates about where it would be if it stayed on track all these years—by one estimate, if it had kept pace with inflation since 1968, it would be worth more than $10.50 per hour. We know the economic impact it can have on individual families.

But I also wanted to ask Mr. Shelton a question. In particular, whenever you see the monthly unemployment numbers come out, and you have an overall unemployment rate which has, nationally, been hovering around 7.5 percent, but, consistently and persistently, every month, it's exponentially higher for African-Americans, in the double figures for as many months behind as we can count, I want to ask you, in particular, the impact that the increase in the minimum wage would have on those who are still struggling who happen to also be African-American workers in the economy.

Mr. SHELTON. There are a number of things that it affects, Senator. When you look at our communities, you're absolutely right. That is, on any given day, if you look at the unemployment rate for America, and you want an educated guess of what it is in African-American communities, you simply double that number. So it is very, very problematic for us.

When you look at African-American families that are working at the minimum wage level, you see they're working multiple jobs to be able to make ends meet, to pay their rent, to keep food on the table, and things along those lines. And, of course, family life suffers as a result of that.

As was mentioned, over 52 percent of African-American children are in female-headed, single-family households, and there is that one person who is there to both put food on the table and to make sure they're there to be able to eat and do other things the children need from their mothers. So, indeed, being able to raise the minimum wage means more time at home, and the quality of life index increases.

We also see that cycle of prosperity that happens in the low-income communities in which they live. If you can buy more food, that means you're paying the local market more money, and that cycle of prosperity continues throughout the community, and other things, of course, that we all need. It is tremendously essential that we see a raise in the minimum wage.

And, of course, the African-American communities, we're seeing in so many cases, ends up being that canary in the coal mine. When hard economic conditions hit, we feel it first. Then we see it resonate throughout. And in this case, hopefully, what we'll see is a prosperity growth as we've seen in times before. That is, we'll see more money, people being able to work hard, give that hard day's labor for a fair day's pay, and be able to take care of their families.

Senator CASEY. Thank you very much.

The CHAIRMAN. Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

I want to thank you all for being here. I appreciate it. This is very helpful. I also have been looking at the data about the impact of the minimum wage. As I understand it, what most of the studies show now is if we raise the minimum wage to $10.10, then we would generate about 140,000 new jobs—Mr. Shelton referred to this. I think we're reading the same studies—and that we'd get about $32 billion more in economic activity.

I know that Senator Alexander cares about generating more jobs and more economic activity. And as Senator Casey said, we affect 23 million children and, in particular, lift 17 million children out of poverty if their parents earned a higher minimum wage, which, of course, in turn, reduces reliance on food stamps, Medicaid, earned income tax credit, and other forms of support. So it seems to me the only argument we ever hear not to do this is the argument that if we raise the minimum wage, there will be fewer jobs available.

I appreciate reading your studies, Dr. Reich. Also, Dr. Dube from the University of Massachusetts-Amherst, was here before to talk to us about his studies. So I just want to think about this gold standard study. When you look at a metropolitan area that reaches across two States, and the minimum wage goes up in one State but doesn't go up in the other, I would say that's probably the gold standard for testing whether or not there's going to be an impact on jobs from changing the minimum wage.

So my question, Mr. Sherk, is are there any of those gold study standards that show that when that happens, jobs have disappeared?

Mr. SHERK. The question here, Senator, is what makes an appropriate control group, and that's at the heart of the dispute between Mr. Reich and his colleagues and between Nuemark and Wascher and the research.

Senator WARREN. I'm sorry, Mr. Sherk. Is there a study of the kind I just described?

Mr. SHERK. There are studies that control for local effects, that have your local controls, and compares—they're not the cross-border studies. There are other studies——

Senator WARREN. Excuse me. Let me just make sure I have this right. There are cross-border studies. Is that right?

Mr. SHERK. There are studies that compare the effects of States that raise minimum wage to those that do not and include regional controls.

Senator WARREN. All right. And what do those studies show, consistently?

Mr. SHERK. The vast majority of studies show that raising the minimum wage reduces employment. Now, what you have is——

Senator WARREN. I'm sorry. Dr. Reich, is that right?

Mr. REICH. No, no, no. Nuemark and Wascher don't use regional controls. You have to read the studies, not just cite the results. They argue against having these controls, like you said in your prepared statement. Once you get into local controls, you don't find negative effects.

Mr. SHERK. What they include is your State's specific trends for the——

Mr. REICH. That's just comparing one State to a random other State. It's not a local control. That's the whole point. That's what's wrong.

Senator WARREN. Mr. Sherk, I was asking about a particular form of study, that is, you look at one metropolitan region that cuts across the State border, and the minimum wage is raised on one side and not on the other, so you've got a consistent metropolitan region. I think that sounds like the gold standard in determining whether or not a change in minimum wage affects whether or not there will be jobs.

As I understand it, Dr. Dube's study, Dr. Reich's study, and other studies have a consistent outcome. And what is that outcome, Dr. Reich?

Mr. REICH. Well, first of all, let me just say Arin Dube was a student of mine and these are co-authored studies.

Senator WARREN. Oh. Fair enough.

Mr. REICH. But we've now done this with five different data sets, the American Community Survey, the Census. We also used the Quarterly Workforce Indicators, the Quarterly Census of Employment and Wages. We've used five different statistical approaches to having local controls, and they all come out the same way.

Senator WARREN. And that is?

Mr. REICH. That there's no negative employment effect.

Senator WARREN. All right. I just want to say my home State of Massachusetts has a higher minimum wage than the rest of the country. We're currently at $8, and we have a pending proposal in our State legislature to raise it to $11 an hour. I hope you will note that the Massachusetts economy is growing. Our unemployment rate is at 6.4 percent, more than a full point below the national average of 7.6 percent.

I understand we need control studies. The control studies, it seems to me, re-inforce the experience we have in Massachusetts. We have raised our minimum wage. We have stayed above the national minimum wage, and we have done better on employment. We have raised the boat for all of our families, and it has worked for us.

We have an opportunity here, it seems to me, Mr. Chairman, to generate jobs, to lift 17 million children out of poverty, to reduce the amount of money that we spend on Medicaid, on food stamps, on earned income tax credit. This is an opportunity for us. We need to raise the minimum wage.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Warren.

Senator Murphy.

STATEMENT OF SENATOR MURPHY

Senator MURPHY. Thank you very much, Mr. Chairman. We have a lot of numbers here at this hearing. One of the most important, though, is one that came at the very least from Mr. Shelton's testimony, and that is $14,000, the amount of yearly income generated by someone that's working on the minimum wage. And notwithstanding the discussion about what percentage of people on the minimum wage are living below the poverty line, there are still millions of people who rely in whole or in large part upon the minimum wage for their income.

In Connecticut, if you don't have a housing voucher, you are going to spend at the very least two-thirds of that $14,000 on housing. And you are essentially going to spend the rest of it on food and transportation, and your $14,000 is gone.

So I guess, Mr. Sherk, my very simple question to you is this. Do you think that $14,000 is enough for somebody to live on today?

Mr. SHERK. Of course not. I would not pretend that that would be a comfortable lifestyle by any means. The question is: What is the best way to help them? If $14,000 is not much to live on, take a look at American Samoa, where $4.76 an hour is even less to live on. Congress raised the minimum wage, and did it benefit them? Did it boost their economy? Their unemployment went from 5 percent to 36 percent. The island's Democratic Governor begged Congress to call it off, because it was doing such damage.

I think that everyone here has good intentions and wants to help low-income families. But the key is finding a way to do so effectively and to do so in a way that will not harm the very people we're trying to help.

Senator MURPHY. I think American Samoa is probably an interesting analogy, but probably not a terribly apt one, given the fact that we're not talking about expediting the rise in minimum wage in the United States at the rate that we're asking American Samoa to. And, of course, there are lots of other comparisons between the strengths of our economy and their economy that probably don't work. But I appreciate the analogy, nonetheless.

I think the other issue here, Mr. Sherk—and I'll ask this question to Dr. Reich. One of the suppositions in your testimony is assuming that individuals are rational economic actors in the sense that they are going to make tradeoff decisions between the benefits that they receive from government and the wage that they receive through their employer.

I would argue that that's not how people think, that the vast majority of people out there who are on Medicaid, who are on SNAP benefits, who are receiving housing vouchers do not want to be on those programs. They do not want to rely on the government in order to help pay for their housing or their kids' food or for their medical benefits. They want to live independently.

The reason why you don't see a lot of people out there turning down raises from their employers is because they want a pathway out of that partial dependence on the government, even if, in the short run, it is going to cost them some money, because the Holy Grail to them is the day in which they no longer have to rely on those benefits, and the only way to get there is perhaps to live through a short period of time in which they maybe have an overall diminution in the amount of money coming into their economy.

I understand the analysis which suggests that that actually hurts some people in the short run. But it's just not how people think. People don't want to be on these programs, and they want a higher wage, because they see it as a pathway to eventually get to total independence.

Let me actually shift to the question I do want to ask Dr. Reich, and that is this. We have this larger trend playing out in our economy right now with respect to the winner-take-all economy, where technology is essentially replacing labor. And one of the byproducts of that is that income to companies now tends to accumulate in the hands of a much smaller number of people, because it just takes a lot less folks to do work than it used to.

That seems to me to be an additional argument in favor of the minimum wage, as we try to figure out how to deal with the consequences of a new economic order whereby technology moves money and moves wealth into the hands of a small number of people. To me, there are all sorts of ways to attack that.

But just let me ask you that question. I mean, that's a larger macro-economic trend. Should we view the minimum wage as one of the ways to respond to that larger issue?

Mr. REICH. Thanks for the question. First, let me respond on the working poor, the poverty point. I don't know. I guess you wouldn't use the same medicine to cure cancer as to cure heart disease. Now, when Franklin Roosevelt signed the Fair Labor Standards Act, the unemployment rate was almost 20 percent. He didn't think that the minimum wage was going to get rid of poverty for those 20 percent who were unemployed or those people who weren't yet collecting social security. Of course not.

The minimum wage is supposed to help the working poor, and as you were pointing out, there are quite a few of them, 10 million probably, who would be helped by a minimum wage increase, people who rely only on wages. There are other things to do for the elderly, the people who have run out of unemployment benefits, and so forth.

But I think it's really a mistake to couch the argument about whether minimum wages reduce poverty and then to look mainly at the people who aren't getting wages at all. If you look at the bottom half of the income distribution and not just the people who are already in poverty, that's where most of the minimum wage workers are. They're not mainly rich suburban kids. That's just a very small segment.

On your question about the macro-economic trends, when I was in college—and it was a long time ago—there was a lot of concern about technology and automation eliminating jobs. That was in the 1960s. To me, this is a perennial. We have more jobs than we've ever had and more people working at jobs around the whole world than we've ever had. I think the problem is increased polarization of income, of earnings, that you were referring to rather than the lack of jobs.

If you look at the low-paid service jobs, they've been growing quite rapidly. It's not that they've been disappearing in the United States. The automation argument is, "Oh, well, we're losing all those jobs," but we're not. And these are jobs that have to be done here. They're not exportable. I think the minimum wage is a very effective lever for those low-wage service jobs.

Why does a barber in Bangladesh get paid less than a barber in Boston? Well, it's because economy has interconnected parts. There are reference points for wages. There's overall productivity. It's quite possible for the United States to pay more to its barbers or its hair stylists—I guess that would be the more contemporary term—than we do at present. We're not going to lose those jobs.

Senator MURPHY. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Sanders.

STATEMENT OF SENATOR SANDERS

Senator SANDERS. Thank you, Mr. Chairman, and I thank all of the panelists for being here.

Let's give an overview of the American economy. Today, we have almost as many people living in poverty, somewhere around 46 million, than at any time in the last 60 years. We have the highest rate of childhood poverty of any major country on earth, somewhere around 22 percent. We have more income and wealth inequality than any major country on earth. And, astoundingly, in the last study that I've seen, between 2009 and 2011, Mr. Chairman, all of the new income created in this country went to the top 1 percent.

Meanwhile, as Dr. Reich has implied, many of the new jobs that are being created are low-wage jobs, service industry jobs. That's the problem. Now, I would just mention for the record that my State has the third highest minimum wage in the country, and that is $8.60 an hour. We also have the fourth lowest unemployment rate in the country. And I would just say for the record that I have really not heard almost anybody suggest that raising the minimum wage to the level that we have in Vermont has been an impediment to our economy, which is doing reasonably well.

I think Bishop Blaire, a while ago when he spoke in his remarks, made a very important point having to do with the dignity of work and the appreciation of work, and that if somebody is going to work, that person has got to receive at least a wage that they can go out and live with dignity on. That's an extremely important point.

When we don't have that—and I was in Detroit, MI, talking to African-American kids a couple of weeks ago, there are kids there who are desperately trying to do the right thing. The best jobs that they can get if they're a high school graduate, even with some college, is working in a fast food restaurant at $7.25 an hour. They can't even get 40 hours a week. They're getting 20 hours a week. They're getting 30 hours a week. They are desperately trying to bring themselves out of poverty. They're going nowhere in a hurry.

Now, if I understand Mr. Sherk's remarks—and correct me if I'm not—one of the points that you made is that by raising the minimum wage people are going to lose certain government benefits which provide them with a higher standard of living. So if your minimum wage goes up, you're going to lose food stamps, you may lose part of the earned income tax credit, you may lose affordable housing, you may lose Medicaid, and at the end of the day, one is worse off than one would have been without a raise in the minimum wage.

Am I understanding you pretty correctly?

Mr. SHERK. More or less. You've basically got two effects. Some people lose their job. Some people don't lose it, but they see most of the benefit clawed back, and they don't come out ahead.

Senator SANDERS. I am reading from, as I understand it, a quote from the Heritage Foundation. It says, "Food stamps is an expensive, old-style program that rewards idleness." Now, what we're seeing in the House are massive cuts in Medicaid, massive cuts in food stamps, transforming Medicare from how we know it, cuts in the Pell grant program.

I would assume, based on what you've told me, that the Heritage Foundation would be strongly opposed to all of these disastrous Republican cuts in social programs. Am I correct in assuming that?

Mr. SHERK. The problem we have with the social programs is that they deny low-income workers the fruits of their labor. I believe the context of that quote was in the need for work requirement.

Senator SANDERS. Let me be more direct. Your argument is that if people make more money, they're going to lose programs. One rational solution to that is to increase programming. So are you in favor of substantially increasing the food stamp program and Medicaid benefits? Is that the Heritage Foundation's position?

Mr. SHERK. I'm not here officially representing the Heritage Foundation——

Senator SANDERS. But you work for the Heritage Foundation.

Mr. SHERK [continuing]. Just as Dr. Reich is not officially representing his college or his school. But my argument is that we've removed the incentive to work. If you take a look at families below the poverty line, two-thirds don't have any adults working at all.

Senator SANDERS. So we remove the incentive to work by having adequate social programs, so you're opposed to that. But on the other hand, you are opposed to raising the minimum wage so somebody can earn a decent living to go out and buy the food and the shelter that they need. I don't quite understand it. I don't quite understand it. Either you're for one or the other.

If you're saying that you want people to have a minimal standard of living and not raise the minimum wage, you have to compensate for low wages by having decent social programs.

Mr. SHERK. I'm saying what we should do is restructure the social programs so the benefit phase-out rates don't overlap at the same time, so that those——

Senator SANDERS. I can't understand how if you're going to—you seem to be a smart guy. But you're arguing two absolutely contradictory points. You can argue that raising the minimum wage will result in lower benefits, a bad thing—good point. Then the answer is that we provide more benefits. Or you can argue to forget the benefits and let's make sure everybody in America makes $15 to $18 an hour. We don't have to worry about the benefits. Which point do you——

Mr. SHERK. Part of the problem with the benefits is they create these phase-out rates. The high marginal tax rates that get close to 100 percent come from the existence of the benefits phasing out.

So in Senator Harkin's State of Iowa, the reason that a hypothetical single mother with one child would come out behind is because of, basically, the massive—your child care subsidies will——

Senator SANDERS. Do you think the Federal Government should address it?

Mr. SHERK. The issue would be that by providing fewer benefits, you reduce the effective phase-out rate, or by—even if you're spending the same amount, coordinate the benefit phase-outs so that they're not all happening at the same time over the same income level.

Senator SANDERS. With all due respect, Mr. Sherk, I think you—whether or not you're here representing the Heritage Foundation—are really not making a whole lot of sense, to my mind. But thank you very much.

The CHAIRMAN. Thank you, Senator Sanders.

Well, since my State of Iowa and my city of Des Moines has been invoked a lot of times here, I was reading your example of this, Mr. Sherk, about this hypothetical single mother in Des Moines. She gets an offer of a job for minimum wage. She goes from not working to working full-time. Her monthly income rises from $1,146 to $1,838. That's the minimum wage. She went from not working to working, and she gets an increase from $1,146, which I assume was all of her government benefits, to $1,838.

Mr. SHERK. So her market income from not working to $7.25 an hour would have been about $1,300, of which about $600 would get clawed back and she comes out net $700 ahead.

The CHAIRMAN. No, no. She's ahead now by—let's see, $1,146 to $1,838. That's about what—$700 more a month she gets, $700 more a month. Is that true?

Mr. SHERK. Yes. But——

The CHAIRMAN. If that's true, then you say that—OK. What if we lowered the minimum wage to $5 an hour? How would that be?

Mr. SHERK. I'd have to go back to the Urban Institute statistics to calculate that.

The CHAIRMAN. Let's just lower the minimum wage to $2.50 an hour, and she goes from not working to working.

Mr. SHERK. I'd have to re-run the calculations on that.

The CHAIRMAN. It seems to me you are accepting a minimum wage of $7.25 as raising her income from not working to working.

Mr. SHERK. I apologize for the lack of clarity in my testimony. What you find with these phase-out rates is that if you go from not working to taking a job that's around the poverty level, you do come out ahead. However, if you then go take a job around the poverty level, close to the minimum wage, and then over that—the next $5 or $6 an hour you'd earn, so, say, from $7.25 an hour up to $13 and $14 an hour, you keep very little of that additional income. And in your State of Iowa, going from $7.25 an hour to $10.10 would actually cost her net income.

Senator SANDERS. Mr. Chairman, can I jump in for 1 second?

Mr. REICH. I'd like to, also, if there's——

Senator SANDERS. You started something, Tom. One quick question. One quick question.

The CHAIRMAN. Yes.

Senator SANDERS. And we don't mean to beat up on you, Mr. Sherk. You're welcome and we're glad you're here.

There are some conservatives who do not believe in the concept of the minimum wage. In other words, if the economy is such and I can offer you $3 an hour——

Senator ALEXANDER. Let me jump in. I don't believe in it.

Senator SANDERS. You do not.

Senator ALEXANDER. I do not.

Senator SANDERS. All right. Then we have a Ranking Member——

Senator ALEXANDER. Just speaking up, as long as we're going to have a——

Senator SANDERS. All right. There we go.

Senator ALEXANDER. As long as we're going to interrupt the chairman and ask our own questions, I——

Senator SANDERS. So you do not believe in the concept of the minimum wage.

Senator ALEXANDER. That's correct.

Senator SANDERS. You would abolish the minimum wage.

Senator ALEXANDER. Correct.

Senator SANDERS. And if somebody had to work for $2 an hour, they would work for $2 an hour.

Senator ALEXANDER. No. I would go for a much more targeted approach. I've been around long enough to remember Pat Moynihan and the negative income tax. And the question I would want to ask if we are interested in social justice and in work is—if we want to honor work instead of getting a welfare check, then wouldn't a more efficient way to help people in poverty be to increase the earned income tax credit rather than to do what we always do here, which is come up with a big idea and send the bill to somebody else?

What we're doing is coming up with a big idea and sending the bill to the employer, just like we come up with a big idea about Medicaid and send the bill to the Governor, or we come up with a big idea about storm sewers and send the bill to the mayor in Burlington. Why don't we just pay for the big ideas we come up with?

And if we want to create a standard of living for people that's much higher than they have today, let's attach the dollars to the job and everybody pay for it. I don't want to do that. But if we were going to do it, then that's the way I would think we should do it.

Senator SANDERS. That's a very interesting discussion for another time.

I just wanted to ask Mr. Sherk—you heard what Senator Alexander said. If Senator Alexander brought forth a bill to abolish the minimum wage, what would you recommend?

Mr. SHERK. I believe the minimum wage hurts its intended beneficiaries, and I think that's—it has not—I do not support the concept of the minimum wage.

Senator SANDERS. I appreciate your honesty. Thank you.

The CHAIRMAN. Well, if I can reclaim my time——

[Laughter.]

Senator ALEXANDER. Welcome back to your own hearing, right?

[Laughter.]

The CHAIRMAN. Again, this is where we're getting into numbers, Mr. Sherk. I had my staff run the same numbers as you have on this hypothetical person in Des Moines, IA. They're not the same, and here's why. You are using a figure from 2008—child care subsidies. Those have been updated since 2008.

So using your same figures, using the same hypothetical person, you have calculated that she loses $700 a month in the child care costs. That's what you show.

Mr. SHERK. It was $528 a month, I believe, $528 in child care subsidies.

The CHAIRMAN. No, no——

Mr. REICH. Senator Harkin, if I could interject, he's only talking about the phase-out. There's also the phase-in, and the earned income tax credit helps workers on the phase-in part. I think that's what Senator Alexander is referring to. It becomes a wage subsidy. More people work as a result of the earned income tax credit. But I guess I'll wait until——

The CHAIRMAN. Mr. Sherk, we can dance on the head of a pin on this. But you show a $528 subsidy, but you say her costs are $700 a month.

Mr. SHERK. I apologize for the confusion. These numbers——

The CHAIRMAN. I'm not going to let this go. I'm not going to let this go. You show $700 per month in costs on child care, but she gets $528. In your example, she loses that. She loses $528.

However, we checked with the Iowa Department of Human Services, and they showed that her child care costs will still be heavily subsidized because the law changed. And it will increase from $8 a month to $128 per month, even if her salary goes to $10.10 an hour.

So that's the problem, again, with using figures and not basing it upon updated statistics and laws that get changed. You used 2008. Well, maybe in 2008, that was right. But it's not right today. It's different. So I ask you to go back and look at the updated child care costs in Iowa and re-run those figures and bring them back to us.

Mr. SHERK. Senator, I would happily do so.

I used the Urban Institute's net income change calculator, because——

The CHAIRMAN. Well, they're wrong.

Mr. SHERK [continuing]. Because I know that you might doubt numbers I would produce at Heritage. But I think I can say with confidence that no one will accuse the Urban Institute of having conservative sympathies. But I'm happy to investigate their numbers in case they made a mistake.

The CHAIRMAN. If the Urban Institute was using 2008 figures, they're wrong. They're just simply wrong.

Well, I guess I haven't completely gone over my time yet. But it seems like—and we do have a fundamental difference. Some people believe there shouldn't be a minimum wage. Some people believe there should be. I think it's been well settled in this country for a long time that we do have a minimum wage, and the arguments in the past have been how much do we raise it and by how much.

I think when we come back to this, it just seems to be fundamental that work has dignity. People would rather work than to get a government program.

And, yes, we have a social safety net to help people in dire circumstances, but it always occurred to me that if we keep increasing the earned income tax credit or whatever other benefits, we're simply having government subsidize different businesses out there. They can still make their profits and pay shareholders a lot of money and pay their executives a lot of money, but then the government is picking up everything else on the other side. That's just one aspect of it.

The other aspect is the dignity aspect of work. You either believe that work has dignity or it doesn't. Now, if you believe it doesn't, well, then, fine. That's your own philosophy. I think most people believe there is dignity in work, and if there's dignity in work, then there has to be enough compensation, I think Bishop Blaire said, where you are dignified in that work.

The problem I've had with lowering minimum wages or doing away with minimum wages is that there's always some poor person out there that's willing to work for less than you are. There's always somebody out there that will take that job with less wages, because their circumstances are so dire and they're in such bad shape, they'll undercut you because they have to have it, no matter what.

So what you do is you have this contest which is what I've always called the fight between capital and labor. Yes, capital should have a return. Capital should have a return, but at the expense of labor. What is a fair division between capital and labor? And that's where, I think, we've gone out of whack in this country.

We were on it for a long time. In the 1940s, 1950s, 1960s, 1970s, there seemed to be a pretty fair division between labor and capital. In the last 30 years, capital has gotten everything, and labor practically gets nothing. And that's the situation we find ourselves in today.

Labor needs a fair share of capital, of the money, than what it's getting today. One way that we can do that is by raising the minimum wage and ensuring that work does have dignity and that you get paid enough to have some dignity in that work.

I know we can talk about hypothetical situations and all these studies and stuff. But just ask the people who were at the White House this morning. I never talked to them. But just go out and talk to people who work on these jobs. They work hard. These people who work in these fast food services—women stand on their feet all day. This is hard work.

The next time you go to one of these busy McDonald's or something, just watch somebody there. They're moving all the time. They don't get too many breaks. They work hard. And yet they don't get—I don't think they get compensated for the dignity of their work and what they're contributing to our society.

Well, that's just my philosophy, and we'll have our philosophical differences here, I know, on this committee, and that's all well and good. We can have our philosophical differences. But it seems to me that at some point, we need to make a decision. Are we going to move ahead and increase the minimum wage so that it keeps up and it gets its fair share of capital, or are we just going to say, "No, we're not?"

I think the vast majority of the American people, and even businesses, too, recognize that we need to increase the minimum wage. So we'll continue to have these hearings, and I don't know how many hearings we'll have. We're going to have to mark up the bill sometime, I hope. I don't know when.

Well, listen, I went ahead and gave my remarks. I'll be glad to yield to anybody else that wants to add something, Senator Alexander.

Thank you all very, very much. I think you've added greatly to our hearings, and we'll continue to look at this subject, and, hopefully, we'll have a bill ready to go sometime this year.

Thank you very much.

[Additional material follows.]

ADDITIONAL MATERIAL

STUDIES THAT SHOW THE NEGATIVE ECONOMIC EFFECTS OF INCREASING THE MINIMUM WAGE

- *Minimum Wages and Employment: A Review of Evidence from the New Minimum Wage Research (2006)*
  - Authored by David Neumark, Professor of Economics at University of California at Irvine and William Wascher, Economist, Board of Governors of the Federal Reserve System. The study was updated in 2013.
  - The study compared over 100 minimum wage studies published since the 1990s.
  - Nearly ⅔ of the studies found negative employment effects of minimum wages while only eight studies found positive effects.
  - 85 percent of the "most credible" studies showed negative employment effects, which were most pronounced in studies of less-skilled employee groups.
  - Studies showing positive employment effects generally relied on a monopsony economic model, which is based on the dubious economic assumption of an upward-sloping labor supply curve.
- *Unequal Harm: Racial Disparities in the Employment Consequences of Minimum Wage Increases (2011)*
  - Authored by William Even, Economics Professor, Miami University and David McPherson, Economics Professor, Trinity University.
  - The study uses 600,000 data observations from 1994–2010, including a large sample of minority young adults.
  - The study focuses on 16- to 24-year-old males without a high school diploma, a group that are particularly susceptible to wage mandates.
  - Among white males in this group, the authors found that each 10 percent increase in a Federal or State minimum wage decreased employment by 2.5 percent; for Hispanic males, the figure is 1.2 percent. But among black males in this group, each 10 percent increase in the minimum wage decreased employment by 6.5 percent.
  - In looking at the States that increased their minimum wages from 2007–9, the authors found: Approximately 13,200 black young adults in these States lost their job as a direct result of the recession; 18,500 lost their job as a result of the Federal wage mandate—nearly 40 percent more than the recession.
- *Analysis of Proposals to Increase the Minimum Wage (2013)*
  - Authored by Mark Wilson, vice president and chief economist, H.R. Policy Association.
  - The study found that increase the minimum wage to $10.10 would potentially cost $42.6 billion per year. Increasing the minimum wage to the President's plan of $9.00 would cost $17.7 billion per year.
  - The potential costs are based strictly on the increased amount of wages employers would be forced to pay hourly wage earners. The study's projected costs assume that increases would not have a negative effect on employment.
- *Who Earns the Minimum Wage? Suburban Teenagers, Not Single Parents (2013)*
  - Authored by James Sherk, Senior Policy Analyst in Labor Economics, The Heritage Foundation.
  - The study found that based on data from the Bureau of Labor Statistics and the Census Bureau, most minimum wage earners are young, part-time workers. Thus, raising the minimum wage would do little to help the working poor.
  - Seventy-five percent of older workers (over the age of 24) earning the minimum wage live above the poverty line and have an average family income of $42,500 per year.

RESPONSE BY HON. SETH D. HARRIS TO QUESTIONS OF SENATOR HARKIN, SENATOR ALEXANDER, SENATOR ISAKSON, AND SENATOR SCOTT

SENATOR HARKIN

Question. Mr. Harris, as you know, I have introduced legislation, the Fair Minimum Wage Act, to raise the minimum wage to $10.10 an hour, index the minimum wage to inflation, and raise the minimum wage for tipped workers to 70 percent of the regular minimum wage. Does the President support my efforts to raise the minimum wage?

Answer. The Administration has long supported raising the minimum wage so hard-working Americans can earn a decent wage for a day's work to support their families and make ends meet and strongly supports this legislation.

SENATOR ALEXANDER

Question 1a. At the hearing, I asked about the Letter of Interpretation by the Occupational Safety and Health Administration (OSHA) that permitted union representatives to accompany OSHA inspectors during walk-around inspections of a non-union worksite. I noted that the Letter of Interpretation conflicts with OSHA's own regulations.

The regulations state in full:

> "The representative(s) authorized by employees shall be an employee(s) of the employer. However, if in the judgment of the Compliance Safety and Health Officer, good cause has been shown why accompaniment by a third party who is not an employee of the employer (such as an industrial hygienist or a safety engineer) is reasonably necessary to the conduct of an effective and thorough physical inspection of the workplace, such third party may accompany the Compliance Safety and Health Officer during the inspection." 29 CFR §1903.8(C).

How does the Letter of Interpretation comply with the regulation?

Answer 1a. OSHA's regulations allow compliance officers to permit third parties to be walk-around representatives in order to make a positive contribution to a thorough and effective inspection. Specifically, 29 CFR 1903.8(a)–(d), allows the compliance officer significant discretion as to who participates in inspections. Although section 1903.8(c) states the general rule that walk-around representatives "shall be" employees of the employer, it explicitly allows walk-around participation by an employee representative who is not an employee of the employer when, in the judgment of the OSHA compliance officer, such a representative is "reasonably necessary to the conduct of an effective and thorough physical inspection."

Worker participation in OSHA inspections is vital to a thorough and effective inspection. The February 21, 2013 letter clarifies that allowing non-employee third-party representatives (such as a community group) to accompany OSHA inspectors on walk-around inspections, if designated by workers at the worksite, is consistent with Section 8(e) of the OSH Act which provides that,

> "[s]ubject to regulations issued by the Secretary, a representative of the employer and a representative authorized by his employees shall be given an opportunity to accompany the Secretary or his authorized representative during the physical inspection of any workplace . . . for the purpose of aiding such inspection." 29 U.S.C. §657(e).

Question 1b. The Letter of Interpretation makes the limited regulatory exception the rule.

Do you agree that under the new policy, as long as a single employee selects a union official as the employees' representative, an employer must recognize the selection and an OSHA inspector must allow the representative to accompany them on a walk-around inspection?

Answer 1b. Allowing non-employee third-party representatives to accompany OSHA inspectors on walk-around inspections is not a new OSHA policy. OSHA has traditionally interpreted this language to make plain that, subject to some limitations, it is up to the employees to choose a representative who will accompany the Compliance Safety and Health Officers (CSHO) during a workplace inspection. It is important to note that this representation is *only* for purposes of participating in the inspection; nothing in OSHA's policy requires an employer to "recognize" the representative for any other purpose.

Question 2. During the hearing, it was pointed out that several companies, including Costco and Starbucks, support increasing the minimum wage. In response, you claimed that such businesses support minimum wage increases because they increase the purchasing power of consumers earning the minimum wage, which supplies "more money for businesses to grow." You further claimed that "responsible businesses," which you define as paying a "fair" and "responsible" wage, are being undercut by employers who pay the minimum wage. But Costco and Starbucks, both of which are large corporations, already pay above the minimum wage.

Isn't it true that increasing the minimum wage would increase labor costs for startups and other small businesses instead of Costco and Starbucks?

Isn't it also true that what you characterize as "responsible businesses" are actually asking the Federal Government to pick winners and losers by imposing higher labor costs on their smaller competitors, thereby placing them at a competitive disadvantage?

Answer 2. Prior to the hearing, I had the opportunity to speak with a group of small business owners who shared with me a March 2013 poll conducted on behalf of Small Business Majority, an advocacy group founded and run by small business owners. That poll found that more than two-thirds of small business owners support increasing the minimum wage and adjusting it annually to keep up with the cost of inflation. Eighty-five percent of small business owners surveyed pay all of their employees more than the minimum wage. The two cited benefits by survey participants include an increased demand for small businesses' goods and services and decreased pressure on taxpayer-financed government assistance.

Question 3. You suggested that the tip credit of $2.13 per hour is too low under current law, and that the tip credit causes restaurant patrons to "subsidize" an employer's wages paid to its workers instead of merely rewarding those workers for good service.

According to the National Restaurant Association, the median hourly earnings received by servers nationwide range from $16 for entry-level servers to $22 for more experienced servers. Thus, the median hourly wage for a server ranges from more than double to more than triple the current minimum wage of $7.25, and far exceeds even the increase proposed in the Fair Minimum Wage Act of 2013.

Do you oppose the concept of the tip credit and would you support abolishing it?

Why do you support increasing the tip credit given that servers already earn substantially more than other minimum wage workers, including non-tipped employees in restaurants?

Isn't it true that by increasing the tip credit for servers with median hourly wages of $16 to $22, you would be encouraging greater income inequality between tipped servers and non-tipped workers in restaurants?

Is increased income inequality an acceptable policy outcome in your view?

You noted that the Department of Labor does not collect data on tipped workers, yet you contend raising the tip credit will not result in negative employment effects. *What evidence do you have that supports this*?

Answer 3. The Bureau of Labor Statistics administers the Occupational Employment Statistics (OES) program, which surveys establishments to produce employment and wage estimates annually for over 800 occupations, including waiters and waitresses (35–3031). According to the latest BLS estimates, the median hourly wage for the over 2.3 million jobs in this occupational category is $8.92 per hour.[1] OES defines "wage" to include tips.[2] Ninety percent of waiters and waitresses earn less than $14.19 per hour. The estimated median annual wage for the workers in this occupation is only $18,540 and presents no risk of increasing inequity if they realize a modest increase in the employer direct-wage payment required by the FLSA.

For workers who earn most of their wages through tips, the wage their employers are required to pay them has not been raised since 1991—22 years ago. The 1996 amendments to the FLSA froze the minimum direct wage that employers utilizing the tip credit are required to pay tipped workers when it set the direct wage payment at no less than 50 percent of the 1996 minimum wage (i.e., $2.13 per hour).

Question 4. In June, a Federal judge in Oregon enjoined the Department of Labor from enforcing its 2011 regulations regarding tip-pooling against the three State restaurant associations and their members, and the National Restaurant Association and its members. Does the Department of Labor plan to refrain from enforcing the tip-pooling regulation nationwide?

Answer 4. In *Oregon Restaurant and Lodging Assn., et al.* v. *Solis*, F. Supp. 2d, 2013 WL 2468298 (D. Or. 2013), the U.S. District Court for the District of Oregon declared the Department's 2011 regulations that limit an employer's use of its employees' tips when the employer has not taken a tip credit against its minimum wage obligations to be invalid. As a result of that decision and the judgment entered in that case, at least until the resolution of any appeal that may be taken, the Department is prohibited against enforcing those tip-retention requirements against plaintiffs (which include several associations, one restaurant, and one individual) and members of the plaintiff associations that can demonstrate that they were a member of one of the plaintiff associations in this litigation on June 24, 2013. The plaintiff associations in the Oregon litigation were the National Restaurant Association, Washington Restaurant Association, Oregon Restaurant and Lodging Associa-

[1] *http://www.bls.gov/oes/current/oes353031.htm.*
[2] *http://www.bls.gov/oes/current/oes_tec.htm.*

tion, and Alaska Cabaret, Hotel, Restaurant, and Retailer Association. In addition, although the decision and judgment do not require this, as a matter of enforcement policy, the Department has decided that it will not enforce its tip-retention requirements against any employer that has not taken a tip credit in jurisdictions within the Ninth Circuit while the Federal Government considers its options. The Ninth Circuit has appellate jurisdiction over the States of California, Nevada, Washington, Oregon, Alaska, Idaho, Montana, Hawaii, and Arizona; Guam; and the Northern Mariana Islands. In investigations that do not meet these criteria, the Department will continue to enforce its longstanding policy that tips are the property of the employee, regardless of whether the employer takes a tip credit.

Question 5a. At the hearing, you stated that the Department of Labor is taking the comments of the Medicaid community "very, very seriously" regarding the proposed rule greatly narrowing the companionship exemption under the Fair Labor Standards Act.

What percentage of the comments from State Medicaid groups raises concerns about the proposed rule?

Answer 5a. A significant number of comments were received on the Department's proposed rule, including a few from State program offices for services for elderly persons and persons with disabilities as well as from the National Association of Medicaid Directors representing the Nation's 56 State and territorial Medicaid agencies. Comments from State agencies focused on the impact of the proposed rule on delivery of publicly funded support services and State budgets.

Question 5b. Have you met personally with any State Medicaid groups regarding the proposed rule? If so, please identify those groups.

Answer 5b. No; however, the Department reached out directly to State Medicaid directors to talk with them to make certain that we understood their programs. In June 2012, the Department's Wage and Hour Division held a call jointly with the Centers for Medicare & Medicaid Services in which we invited all State Medicaid Directors to participate. Over 38 State Medicaid program representatives from 26 States participated in that discussion about their programs. See Attachment A for a list of participants.

In addition, while the rule was under consideration at OMB, State Medicaid Directors met with the Administration and DOL officials (pursuant to the E.O. 12866 process) to discuss their concerns.

Question 6a. At a House Appropriations hearing in April, you testified regarding the Office of Federal Contract Compliance Programs proposed rule that sets a 7 percent quota for disabled individuals working for Federal contractors. You pointed out that the Department of Labor is exceeding the President's Executive Order requiring Federal agencies to have at least 5 percent of their workforce be individuals with disabilities. You said, as of October 2011 disabled individuals made up 11 percent of the Department of Labor's workforce.

How did the Department of Labor collect the statistics on individuals with disabilities?

Answer 6a. It is important to clarify that in its Notice of Proposed Rulemaking (NPRM) regarding section 503 of the Rehabilitation Act of 1973, the Office of Federal Contract Compliance Programs proposed setting a 7 percent utilization goal for Federal contractors. The utilization goal is an aspirational workforce goal that would apply to individuals with disabilities. The proposed goal, derived from disability employment data in the Census Bureau's American Community Survey, would provide Federal contractors with a quantifiable means to measure their success in recruiting qualified individuals with disabilities, and assist contractors in identifying workplace barriers to equal opportunity. As the NPRM states, the proposed goal is not a quota and a contractor's failure to meet it would not, by itself, constitute a violation of law.

DOL ran workforce reports based on employee completion of the SF–256, Self-Identification of Disability form and identified the number of Disabled Veterans (30 percent or more).

On July 17, 2012, DOL's Assistant Secretary for Administration and Management and the Assistant Secretary for the Office of Disability Employment Policy issued a DOL-wide memorandum announcing a "Disability Census" in August. The communication encouraged employees to review and update their identified disability status as appropriate, and in August, 371 employees updated their disability status.

Question 6b. Does the 11 percent contain only new and existing hires?

Answer 6b. The 11 percent was the percentage of employees with disabilities in the executive branch as reported by the Office of Personnel Management. DOL's percentage of disabled employees in its workforce was 10.35 percent as of September 30, 2011. The percentage of disabled employees in the DOL workforce was 12.74 percent as of September 30, 2012.

Question 6c. Did the Department of Labor ask existing hires (those hired prior to the Executive order) to update their disability status?

Answer 6c. The July 2012 communication about the DOL Disability Census was sent to all DOL employees.

Question 6d. Can you provide the number of individuals with disabilities hired by the Department of Labor since Executive Order 13548 was issued on July 26, 2010 and provide the disability classifications for those individuals, pursuant to the Office of Personnel Management Standard Form 256? Do not include any identifying or personal information of Department of Labor employees.

Answer 6d. Since July 26, 2010, the Department has hired 3,650 permanent employees. Of this total, 483 permanent hires self-identified as having a disability. In addition there were 271 permanent Disabled Veterans with 30 percent or more compensable disabilities hires that self-identified not having a disability or not wishing to disclose a disability. Together, these permanent hires represented 20.7 percent of the Department's permanent hires. See Attachment B.

Question 6e. Did the Department of Labor train its staff before they collected data from existing employees regarding their disabilities?

Answer 6e. No. However, DOL employees received e-mail instructions on how to update their disability status electronically as part of the DOL Disability Census in August 2012. As a result, 371 DOL employees updated their own disability status. No DOL staff "collected data" from other employees.

Question 6f. Were they provided training packets or other materials? If so, please provide a copy of those training packets or other materials.

Answer 6f. Attachments C–F are copies of the communications issued to DOL employees.

Attachments

ATTACHMENT A

FTS–DOL ESA WH Conference Call—Mr. Michael Hancock-Conference Leader

June 26 2012 @ 2 PM CT—Confirmation # 4912550

	First name	Last name	State	State agency or organization
1	Jospeh	Breen	NC	Division of Medical Assistance.
2	Kathy	Bruni	CT	Dept. of Social Services.
3	Marcus	Canaday	WVA	Bureau for Medical Svcs.
4	Cecilia	Cowie	MT	Dept. of Public Health & Human Services.
5	Barb	Edwards	MD	Centers for Medicare & Medicaid.
6	Kristin	Edwards	MO	MO Health Net Division.
7	Merle	Edwards	VT	Dept. of Disability Aging and Independent Living.
8	Mary	Ellen Wright	KS	Department of Health.
9	Jeffrey	Greer	CA	Dept. of Developmental Svcs.
10	Tami	Harlan	AR	Dept. of Human Services Division of Medical Services.
11	Richard	Henley	LA	Dept. of Health and Hospitals.
12	Rick	Hepfer	SC	Dept. of Health & Human Services.
13	Lisa	Hettinger	ID	ID Medicaid.
14	Glenda	Higgs	AR	DHS Medicaid.
15	Heather	Hill	MI	Medicaid.
16	Patti	Killingsworth	TN	Zero of Tencare.
17	Karen	Kimball	NH	Dept. of Health & Human Services.
18	Glen	Larsen	UT	Bureau Community Based Services.
19	Helen	Leonard	VA	Dept. of Medical Assistance Services.
20	Barbara	Lewis	DE	Medicad and Medical Assitance.
21	Mary Jo	Littlewood	NC	The Division of Aging & Adult Services.
22	Nancy	Maier	ND	ND Medicaid.
23	Jeane	Maitland	IN	Office of Medcaid Policy & Planning.
24	Andrea	Maresca	DC	National Association of Medcaid Directors.
25	Nichole	Martin	VA	Dept. of Medical Assistance.
26	Laura	McClintock	WA	DOL.

FTS–DOL ESA WH Conference Call—Mr. Michael Hancock-Conference Leader—Continued

June 26 2012 @ 2 PM CT—Confirmation # 4912550

	First name	Last name	State	State agency or organization
27	Tammy	Moffitt	NV	Division of Healthcare Financing & Policy.
28	Lou Ann	Owen	LA	LA Dept. of Health & Hospitals.
29	Connie	Parker	AR	Dept. of Human Services & Aging.
30	Kevin	Patterson	MD	Medicaid.
31	Laura	Randles-Little	CA	CA Dept. of Social Services.
32	Greg	Rodriguez	CA	Dept. of Social Services.
33	Don	Ross	OR	Division of Medical Assistance Programs Medicaid.
34	John	Shen	CA	Dept. of Health care services.
35	Roy	Smith	SC	Dept. of HHS.
36	Jami	Snyder	AZ	AZ Healthcare Cost Containment System Access.
37	Diane	Stahle	IA	Attorney General's Office.
38	Jamie	Staunton	WY	Dept. of Health.
39	Michael	Stickler	OR	Dept. of Human Svcs.
40	Jarrod	Terry	MD	MD Dept. of Health.
41	Megan	Uzzell	Federal	Dept. of Labor.

ATTACHMENT B

Disability code	No. of DOL hires
1	35
5	236
6	109
13	2
15	42
18	3
21	3
22	16
24	1
26	2
27	1
30	2
40	22
41	8
44	55
45	2
46	1
47	2
48	1
49	5
51	3
57	6
61	5
64	1
65	1
69	8
70	10
79	1
82	4
83	7
84	46
86	27
87	1
88	13
90	4
91	30
92	2
93	2
94	25
95	10
Total Hires	754

Please note that some of the codes listed above were abolished and moved to other codes consistent with the July 2010 revised SF–256. This systems change was effective on June 5, 2011. Currently, all disability codes align with the SF–256, revised July 2010.

ATTACHMENT C

From: Michael Kerr Public—ASAM
Sent: Tuesday, July 17, 2012 6:29 PM
Subject: Memorandum for All DOL Federal Employees—2012 DOL Disability Census
Attachments: Memorandum for All DOL Federal Employees—2012 DOL Disability Census (7–17–12).pdf

This message is intended for all DOL Federal employees

From: T. Michael Kerr, Assistant Secretary for Administration and Management
Kathy Martinez, Assistant Secretary for Disability Employment Policy

Shortly, the Department will launch the 2012 DOL Disability Census. All DOL employees are encouraged to review and update their disability status. You may do so via your Employee Personal Page (EPP) at: *https://www.nfc.usda.gov/personal/eplogin.aspx* (please click on "*ERI, Gender, & Disability*" and select the "self-service" button to make changes). Alternatively, you can complete the attached Standard Form 256 (*Form 256 "Self Identification of Disability*") and provide the completed form to your servicing personnel office.

Please review the choices on the front of the form. While you may not consider yourself disabled, you may have a disability. Please also note that, as the form states, your personal responses will remain confidential and will not become part of your official personnel records.

Two years ago, President Obama signed Executive Order 13548, Increasing Federal Employment of Individuals with Disabilities, which requires Federal agencies to improve their efforts in the recruitment, hiring and retention of individuals with disabilities. Led by the Secretary DOL has engaged in the following activities:

- Increased training for managers about special hiring authorities for persons with disabilities;
- Enhanced outreach and networking relationships with external organizations that promote the employment of individuals with disabilities;
- Increased use of specific recruitment tools (e.g., the Bender List) among human resources professionals to find qualified applicants with disabilities for an array of positions;
- Increased awareness and promotion of the Department's Reasonable Accommodation Resource Center (RARC), which provides sign language interpretation, document production in Braille, and other forms of assistive technology to help improve and adapt the physical, technical, and recreational environments of employees with disabilities; and
- Increased resources to support applicants and employees with disabilities with employment inquiries.

There is still room for improvement. The Secretary's commitment to EO 13548 is ongoing. There is considerable interest in ensuring that employees are receiving the support needed to be successful and to be able to contribute fully within the work environment. Updating individual disability information is, as the Form 256 states. "the essential first step in improving these conditions and consequently meeting the requirements of the Rehabilitation Act." This is especially important considering that one's disability status may change during one's career.

Thank you.

ATTACHMENT D

U.S. Department of Labor

JUL 17 2012

MEMORANDUM FOR ALL DOL FEDERAL EMPLOYEES

FROM: T. MICHAEL KERR
Assistant Secretary for
Administration and Management

KATHY MARTINEZ
Assistant Secretary for
Disability Employment Policy

SUBJECT: 2012 DOL Disability Census

Shortly, the Department will launch the 2012 DOL Disability Census. All DOL employees are encouraged to review and update their disability status. You may do so via your Employee Personal Page (EPP) at: https://www.nfc.usda.gov/personal/eplogin.aspx (please click on *"ERI, Gender, & Disability"* and select the "self-service" button to make changes). Alternatively, you can complete the attached Standard Form 256 (Form 256 "Self Identification of Disability") and provide the completed form to your servicing personnel office.

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- Enhanced outreach and networking relationships with external organizations that promote the employment of individuals with disabilities;
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- Increased awareness and promotion of the Department's Reasonable Accommodation Resource Center (RARC), which provides sign language interpretation, document production in Braille, and other forms of assistive technology to help improve and adapt the physical, technical, and recreational environments of employees with disabilities; and
- Increased resources to support applicants and employees with disabilities with employment inquiries.

There is still room for improvement. The Secretary's commitment to EO 13548 is ongoing. There is considerable interest in ensuring that employees are receiving the support needed to be successful and to be able to contribute fully within the work environment. Updating individual disability information is, as the Form 256 states, "the essential first step in improving these conditions and consequently meeting the requirements of the Rehabilitation Act." This is especially important considering that one's disability status may change during one's career.

Thank you.

ATTACHMENT E

From: Michael Kerr Public—ASAM
Sent: Monday, August 06, 2012 2:46 PM
Subject: Status of the 2012 DOL Disability Census
Attachments: Status of the 2012 DOL Disability Census (8–6–12).pdf

This message is intended for all DOL Federal employees

From: T. Michael Kerr, Assistant Secretary for Administration and Management
Kathy Martinez, Assistant Secretary for Disability Employment Policy

By now, you know that last week we officially launched our 2012 DOL Disability Census on LaborNet. We weren't sure how many employees needed to update their disability codes, but we wanted to ensure that our data was as accurate as it could be. We are very happy that we made this effort a priority. At the end of our first week, nearly 300 employees updated their disability status. We will keep the LaborNet banner up all month to remind you to make any updates if you haven't yet.

Thank you those of you that have already updated your disability status and/or provided us with feedback. We received several comments about the current form and the Employee Personal Page (EPP) not allowing employees to make more than one disability code designation. We have discussed this concern with OPM, and they are working on a revision that allows for this in the future. We will keep you apprised of their progress. Finally, we wanted to communicate that we appreciate your feedback and are pursuing your ideas and concerns as best we can.

Thank you for helping us to ensure employees and applicants are receiving the support needed to be successful at work.

ATTACHMENT F

U.S. Department of Labor

Office of the Assistant Secretary
for Administration and Management
Washington, D.C. 20210

AUG - 6 2012

MEMORANDUM FOR ALL DOL FEDERAL EMPLOYEES

FROM: T. MICHAEL KERR
Assistant Secretary for
Administration and Management

KATHY MARTINEZ
Assistant Secretary for
Disability Employment Policy

SUBJECT: Status of the 2012 DOL Disability Census

By now, you know that last week we officially launched our 2012 DOL Disability Census on Labornet. We weren't sure how many employees needed to update their disability codes, but we wanted to ensure that our data was as accurate it could be. We are very happy that we made this effort a priority. At the end of our first week, nearly 300 employees updated their disability status. We will keep the Labornet banner up all month to remind you to make any updates if you haven't yet.

Thank you those of you that have already updated your disability status and/or provided us with feedback. We received several comments about the current form and the Employee Personal Page (EPP) not allowing employees to make more than one disability code designation. We have discussed this concern with OPM, and they are working on a revision that allows for this in the future. We will keep you apprised of their progress. Finally, we wanted to communicate that we appreciate your feedback and are pursuing your ideas and concerns as best we can.

Thank you for helping us to ensure employees and applicants are receiving the support needed to be successful at work.

SENATOR ISAKSON

Question 1. Several years ago, the construction industry came together with labor unions, in coordination with DOL, to develop the Crane and Derrick Standard to protect the American workforce from being killed or seriously injured by crane accidents. The Department has recently indicated that it intends to delay the implementation of this standard. Why, with the development of regulation with a 4-year phase in period and nearly unanimous consensus from stakeholders, would you consider the delay of the compliance deadline for this rule?

Answer 1. OSHA published the Cranes and Derricks standard in 2010, and most of the provisions are currently in effect, including provisions to ensure power line safety, safe ground conditions, regular inspection and repair, and keeping workers away from overhead loads. However, after the final standard was published, the Agency heard from members of the crane industry, including members of the original advisory committee, that there was considerable confusion about OSHA's crane operator qualification requirements, specifically concerning the requirement that operators be certified by "type and capacity" of crane, as well as concerns that operator certification alone may not provide sufficient safety. OSHA heard this message in public and private meetings as well as in public stakeholder meetings on April 2 and 3 of this year. The notes from the stakeholder meetings are posted on OSHA's Web site.[3]

As a result, OSHA has announced that it intends to extend for 3 years the date of enforcement for two provisions of the final cranes standard. OSHA will extend for 3 years the deadline for crane operators to be certified. To ensure that crane operators are qualified to operate the equipment during this period, OSHA will also extend for 3 years the employer's current duty to ensure that crane operators are competent to safely operate equipment. Employers have long held this duty under OSHA's construction standards.

Quesstion 2. What concerns and stakeholders have caused the Department to consider delaying the compliance date which the crane industry so strongly supported?

Answer 2. A number of stakeholders expressed the concerns described above. A list of participants in our stakeholder meetings, as well as their written comments and notes that describe their concerns can be viewed in OSHA's Crane Operator Certification Requirements Web page.[4]

SENATOR SCOTT

The significant policy shift represented by OSHA's February 21, 2013 Letter of Interpretation regarding the accompaniment of OSHA inspectors by third parties on walk-around inspections is of great concern for a number of reasons.

Question 1. This Letter of Interpretation (LOI) seems to have been issued with great haste and without any public input. Why did OSHA decide to pursue a significant change in OSHA practice and policy via a closed process (Letter of Interpretation) rather than the more open and deliberative process a rulemaking affords?

Do you not agree that the opportunity for stakeholders to offer their input is of great importance?

Answer 1. OSHA fully agrees that stakeholders should have the opportunity to offer input when OSHA is pursuing significant changes in practice and policy. Allowing non-employee third-party representatives to accompany OSHA inspectors on walk-around inspections, however, is not a new OSHA policy. The February 21, 2013 Letter of Interpretation was not a significant change of OSHA practice or policy, but a clarification of existing OSHA policy. Therefore, notice and comment were not required by the Occupational Safety and Health Act or by the Administrative Procedures Act.

Question 2. Please explain how allowing third parties, such as union organizers, to accompany OSHA inspectors into non-unionized facilities does not violate the Field Operations Manual, which gives inspectors clear instructions to remain neutral in any labor dispute?

The Manual reads:

> "During the inspection, Compliance Safety and Health Officers will make every effort to ensure that their actions are not interpreted as supporting either party to the labor dispute."

Answer 2. OSHA's Field Operations Manual clearly instructs OSHA Area Directors to thoroughly assess the credibility and veracity of any complaint filed during a labor dispute and states that "During the inspection, CSHOs will make every effort to ensure that their actions are not interpreted as supporting either party to the labor dispute." The Field Operations Manual also instructs CSHO's to "ensure that employee representatives are afforded the opportunity to participate in all phases of the inspection." OSHA management and staff are trained to comply with the Field Operations Manual and are required to follow its directions.

OSHA inspectors are instructed and trained to ensure that the focus of all participants in its inspections is on worker safety and health. The walk-around regulations as a whole provide numerous safeguards to allow CSHOs to maintain this focus, and to make sure that walk-around representatives do not engage in disruptive behavior.

Question 3. The question of the neutrality of inspectors will inevitably manifest itself and will subvert the safety focus of these inspections. The inclusion of these third parties also has the potential to invite opportunities for unions and other groups to advance their agendas against an employer. How is this in the best interest of workers' long-term safety?

[3] *http://www.osha.gov/cranes-derricks/Meeting_notes.html*.
[4] *http://www.osha.gov/cranes-derricks/stakeholders.html*.

Answer 3. Worker participation in OSHA inspections is vital to a thorough and effective inspection. OSHA's regulations allow compliance officers to permit third parties to be walk-around representatives in order to make a positive contribution to a thorough and effective inspection.

Question 4. What liability protections will be afforded to employers for having third parties who lack requisite safety training or clearance to be around sensitive (not classified) information in their facilities? Who is legally responsible if the third party is injured? Can criminal background checks be run on these third party representatives?

Answer 4. This is not a new policy for OSHA. However, 29 CFR 1903.8(d) states that:

> "Compliance Safety and Health Officers are authorized to deny the right of accompaniment under this section to any person whose conduct interferes with a fair and orderly inspection."

Section 1903.9(d) allows an employer to limit entry to an area containing trade secrets to authorized representatives who are authorized by the employer to enter that area. Nothing in OSHA's February 21, 2013, letter affects either of these rules.

Question 5. The LOI fails to address the experience or qualifications required of third parties who might be selected to accompany OSHA inspectors, which is in direct contrast to OSHA regulations suggesting third parties who accompany inspectors in the limited cases the regulation affords should be safety engineers or industrial hygienists. Does OSHA plan to stipulate any specific criteria here?

Answer 5. OSHA's regulations allow CSHOs to permit third parties to be walk-around representatives in order to make a positive contribution to a thorough and effective inspection. Specifically, 29 CFR 1903.8(a)–(d), allow the compliance officer significant discretion as to who participates in inspections. Although section 1903.8(c) states the general rule that walk-around representatives "shall be" employees of the employer, it explicitly allows walk-around participation by an employee representative who is not an employee of the employer when, in the judgment of the OSHA compliance officer, such a representative is "reasonably necessary to the conduct of an effective and thorough physical inspection." While section 1903(c) offers examples of industrial hygienists or safety engineers as possible third parties, it does not purport to be an exclusive list and does not preclude the participation of other third parties who may make a positive contribution to a thorough and effective inspection.

RESPONSE BY JAMES SHERK TO QUESTIONS OF SENATOR HARKIN, SENATOR ALEXANDER, AND SENATOR MURRAY

SENATOR HARKIN

Question 1. Your testimony included the hypothetical case of a single mother working at minimum wage in Des Moines who would purportedly lose public benefits like child care subsidies if she received a raise. This is based on an online calculator from the Urban Institute, which uses 2008 program policies and laws. However, according to the fee chart from the Iowa Department of Human Services—which is updated annually and shows current child care co-pays for low-income families—a single mother of one child earning $7.25 per hour and working full-time would have a very low copay—paying only around $8 per month for child care. If her wage increased to $10.10, her copay would increase to $128 per month. That is, she does not lose her entire subsidy as you have asserted; rather her child care is still heavily subsidized, though she does pay a bit more. We have provided you with this fee chart. What is your response to this updated information? How do you reevaluate the hypothetical case you have presented?

Answer 1. I contacted the Urban Institute staff who produced the NICC calculations. They checked their calculations and the current Iowa subsidy charts and verified that your staff is correct. Iowa's childcare subsidies slowly phaseout until they reach a threshold value, at which point they stop entirely. The NICC uses 2008 program rules, and in 2008 that threshold value was below $10.10 an hour. Inflation adjustments since then have raised the threshold for a single mother with one child to $10.56 an hour. (The fee chart shows subsidies for parents with higher income levels; only parents of children with disabilities qualify for them.)

Re-evaluating the provided hypothetical, the single mother would face an effective marginal tax rate of 73 percent if her income rose from $7.25 an hour to $10.10 an hour. Her market income would rise by $494 a month, while she would owe $152 more in State and Federal taxes and lose $129 in childcare benefits [1] and $88 in SNAP benefits. So her net income would rise by $125 a month, 25 percent of the increase in her market earnings.

If, however, she subsequently earned a 50 cent raise to $10.60 an hour she would be left worse off than if her pay remained at $7.25 an hour. At that point she would cross the eligibility threshold for childcare benefits and lose the approximately $400 a month in remaining childcare subsidies. This entirely offsets both her increased pay from the raise and the entire net income gains from going from $7.25 an hour to $10.10.

The structure of the current welfare system heavily penalizes low-income workers who earn raises or work additional hours. They receive little near-term benefit from additional work. The *Des Moines Register* recently reported on this problem.[2] The paper covered a single mother who, in order to maintain eligibility for childcare subsidies, now works 4 days a week instead of her preferred five:

> Single mother Stacia Mattix of Des Moines faced losing child care assistance in December because she was making 30 cents more than allowed. The 30 cents was not going to cover the more than $300 a week she received in assistance for her two children, ages 3 years and 18 months.
>
> Her solution was to drop a day from work to remain qualified, which has cost her around $80 a week in income.
>
> "I think it's unfair for the people who are working and trying to make a decent living that they can't get any help because they make a teeny-tiny bit over," said Mattix, 22.
>
> Mattix feels stuck. Her children must attend a child care center because of the hours she works. In-home child care would be cheaper, but she cannot find one that opens at 5:45 a.m.
>
> "Making $10.81 an hour is not going to make up $300 a week for day care," Mattix said. "I think something needs to be done about it." [3]

Question 2. Mr. Sherk, most opponents to the minimum wage claim that the minimum wage harms teenage employment. You have made the case that increasing the minimum wage encourages more teenagers and college students to apply for minimum-wage jobs and that these new workers crowd-out adult applicants. In other words, teens gain jobs, to the detriment of adult workers. Which is it—raising the minimum wage is bad for teens, or good for teens?

Answer 2. Raising the minimum wage causes employers to hire fewer workers overall. However, it also causes some teenagers to enter the labor force and apply for jobs they would not have otherwise sought. This has ambiguous effects on teenage employment: it reduces job openings, but more teenagers apply for the remaining openings. Consequently total teen employment can either rise or fall depending on the ratio of adult to teenage workers before the increase and the change in teenage job seekers afterward.[4]

Minimum wage increases unambiguously harm the job prospects of workers, both teenagers and adults, who would have applied for jobs anyway. They face both fewer job openings and stiffer competition for those openings. As I discussed in my testimony, this lowers the ratio of adult to teenage employment within firms. It also shifts the composition of teenage employment. After minimum wage increases, businesses employ more teenagers living in affluent zip codes and fewer teenagers from lower-income zip codes.[5] The higher pay induces more affluent teens to enter the

[1] The calculations your staff produced assumed 20 work days a month, i.e., a 4-week month. The NICC calculations assume 4.33 weeks in a month, which increases the marginal cost per month to $129 from $120.

[2] Sara Sleyster, "'Child care cliff' makes it tough for working poor to get ahead," *The Des Moines Register*, March 17, 2013, *http://www.desmoinesregister.com/article/20130318/NEWS/303180039/-Child-care-cliff-makes-tough-working-poor-get-ahead*.

[3] Note that Ms. Mattix receives more childcare subsidies than the hypothetical single mother I discussed because she has two children.

[4] To illustrate this consider companies A Corp. and B Inc. Before the minimum wage increase A Corp. employs only teenagers and B Inc. employs only adults. Because of the minimum wage hike A Corp. cuts its payroll and this reduces its total teenage employment—only teenagers can lose their jobs. B Inc. also cuts its payroll, but at the higher pay rate teenagers make up half of the qualified applicants for its openings. So teenagers account for half the new hires when B Inc. fills job openings. B Inc. employs more teenagers than before despite employing fewer workers.

[5] Laura Giuliano, "Minimum Wage Effects on Employment, Substitution, and the Teenage Labor Supply: Evidence from Personnel Data," *The Journal of Labor Economics*, Vol. 31, No. 1 (January 2013), pp. 155–194.

labor market. They crowd out both disadvantaged adults and disadvantaged teenagers.

SENATOR ALEXANDER

Question 1. During the hearing, it was asserted that studies like those of Dr. Michael Reich studying metropolitan areas or counties across State lines are the "gold standard" of economic studies on the minimum wage. Do you agree that such studies are the "gold standard" for evaluating the economic effects of minimum wage increases? If not, please describe any problems with respect to these studies' methodology.

Answer 1. The "gold standard" of any economic study is a randomized controlled trial, with some subjects randomly subject to the program or policy, and others randomly selected as a control group. Such studies control for all external differences between the treatment and control groups, leaving the policy as the only remaining factor driving changes between the two. Randomized controlled trials recently demonstrated that Job Corps does little to improve the wages or employability of youth who participated in the program.[6] Randomized controlled trials also demonstrated that giving long-term unemployment insurance recipients Re-employment Eligibility Assessments (REAs) speeded their return to work.[7]

Such randomized controlled trials are not possible in the context of the minimum wage debate. Congress does not randomly raise the minimum wage some firms must pay, but not others, and evaluate whether those firms hire fewer workers. This leaves researchers with a second-best approach of comparing the economic results of jurisdictions that raise their minimum wage with those that do not and then controlling for external factors that might influence the comparison.

Dr. Reich and his co-authors attempt to control for external factors with an intuitively plausible methodology: comparing counties that border each other across a State line, where one State raises its minimum wage and the other does not. It seems reasonable that such counties should be relatively similar to each other, and thus the primary difference between them would come from the higher minimum wage. However, other researchers have examined this assumption and found that counties that border each other are often very dissimilar.[8]

Dr. David Neumark (University of California at Irvine) and Dr. William Wascher (The Federal Reserve Board) analyzed how closely the labor markets of cross-border counties resemble each other. They find that among reasonable candidates for comparison, the cross-border counties "appear no better than a random draw."[9] In the example I referenced in my written testimony, Dr. Reich's methodology compares urban Leon County in Florida (the home county of Tallahassee and site of a major university) with its population of 275,000 with rural Grady County, GA, population 25,000.

Question 2. There was some disagreement at the hearing as to whether studies finding that minimum wage increases reduce employment have local or regional controls as compared to Dr. Reich's studies purporting to employ local controls in comparing adjacent counties across State lines. You testified that the "heart of the dispute" between Dr. Reich's studies and the findings of other economists, i.e., that higher minimum wages reduce employment, regards what constitutes an appropriate control group. Please explain and clarify the apparent conflict in the economic literature of the minimum wage, including the differing controls used in each.

Answer 2. Studies comparing States that raise their minimum wage to those that do not consistently find the minimum wage reduces employment. Dr. Reich and his co-authors argue this happens because States with minimum wages above the Federal rate—predominantly in the Northeast and Pacific coast—have slower underlying employment growth, especially among the teenage and restaurant workers most affected by the minimum wage. They contend this drives the apparent negative relationship between higher minimum wages and lower employment. Their research deals with this potential problem by either (1) comparing cross-border coun-

[6] Peter Z. Schochet, John Burghardt, and Sheena McConnell, "Does Job Corps Work? Impact Findings from the National Job Corps Study," *The American Economic Review*, Vol. 98, No. 5 (December 2008), pp. 1864–86.

[7] Eileen Poe-Yamagata, et al., "Impact of the Reemployment and Eligibility Assessment (REA) Initiative," IMPAQ International, June 2011, *http://wdr.doleta.gov/research/FullText_Documents/ETAOP_2012_08_Impact_of_the_REA_Initiative.pdf*.

[8] David Neumark, Ian Salas, and William Wascher, "Revisiting the Minimum Wage—Employment Debate: Throwing Out the Baby with the Bathwater?" National Bureau of Economic Research *Working Paper* No. 18681 (2013), *http://www.nber.org/papers/w18681*.

[9] *Ibid.*, pp. 27–8.

ties or (2) including controls for the census region the State resides in—thus comparing changes in employment only between States in the same census division. With either of these approaches they find no correlation between minimum wage rates and lower employment.

On the first point, Dr. Neumark and Dr. Wascher object that Dr. Reich throws out large amounts of useful information on the effect on minimum wage increases. For example, a rural county in Tennessee and in Michigan may have comparable labor markets. A decrease in employment in Michigan relative to Tennessee following Michigan's minimum wage hike provides insight into the effect of higher minimum wages. But because Michigan and Tennessee do not border, Dr. Reich's studies ignore this information.

Economists have other approaches for dealing with pre-existing trends. One involves directly controlling for State time trends. Dr. Neumark and Dr. Wascher included such controls in earlier studies and found it had no effect on their conclusions. Dr. Reich and his colleagues included controls for time trends over a period covering 1990–2009 and found that doing so removed the negative employment effect of minimum wage increases. This is one of the reasons they criticize Neumark and Wascher's findings. However, their approach assumed that employment grows at a constant rate over time. This is unlikely to hold true, especially given the recessions of 1990, 2001, and 2008–9. When Neumark and Wascher controlled for State trends using a more flexible specification that allowed for different rates of growth during recessions and expansions they found minimum wage increases reduce employment. [10]

On the second point, Neumark and Wascher point out that many States in the same census region (such as West Virginia and Florida) have very different employment trends. They analyzed minimum wage effects separately for each census region and also analyzed the comparability of States within those regions. They found significant negative employment effects in the census regions where States are the most comparable. In census regions where State economic trends differed markedly—and thus make poor comparison groups—they found no effects.

The argument that the failure to include regional controls biases minimum wage studies hinges upon the assumption that States in the same region (or neighboring counties) are better comparisons for each other. Neumark and Wascher find this is often not the case, but that such analysis finds negative employment effects when States have similar economic characteristics.[11]

It should be noted that studies with regional controls by researchers other than Neumark and Wascher also find negative employment effects—when the comparison States are chosen on the basis of their similarity. For example, a recent study analyzed the effect of New York's 2004 increase in the minimum wage. This study found that the nearby States of Pennsylvania, Ohio, and New Hampshire had similar economic trends. Compared with these States—or a more complex "synthetic control" method—the researchers found that teenage employment in New York fell sharply after the minimum wage rose.[12]

Question 3. During the hearing, you were asked about your example of the hypothetical single mother from Des Moines, Iowa earning minimum wage. It was suggested that the numbers you used from the Urban Institute did not take into account legal changes that have occurred since 2008. Would you please explain the source of your data, the method of your calculations, and your conclusions concerning how higher minimum wages combine with overlapping government social program phase-outs to create disincentives to work?

Answer 3. Many Federal programs phaseout as an individual's income rises. This makes sense—the government should not be providing food stamps or welfare benefits to middle-class workers. However, Congress did not coordinate the phase-out rates across programs. As a consequence low-income workers can face extraordinarily high effective marginal tax rates as they lose benefits from multiple programs at once. Many low-income workers receive little to no net benefit from working additional hours or earning a raise. This problem particularly affects full-time workers with earnings near the Federal minimum wage.

To quantify this problem the Urban Institute created a Net Income Change Calculator (NICC).[13] The calculator models how a worker's net income changes as his or

[10] *Ibid.*, pp. 10–14.
[11] *Ibid.*, pp. 15–24.
[12] Joseph Sabia, Richard Burkhauser, and Benjamin Hansen, "Are the Effects of Minimum Wage Increases Always Small? New Evidence from a Case Study of New York State," *Industrial and Labor Relations Review*, Vol. 65, No. 2, (April 2012).
[13] *http://nicc.urban.org/netincomecalculator/.*

her earned income rises. It accounts for changes in: Federal income and payroll tax liabilities; earned income tax credit (EITC) refund; welfare benefits (TANF); women, infants, and children benefits (WIC); food stamps (SNAP); subsidized housing; and child-care benefits. The calculator does not account for medical benefit programs like Medicaid or SCHIP. The program uses 2008 benefit eligibility rules.

I used the NICC to calculate the effective change in the income of a single mother with one child in Iowa. I assumed that the mother worked full-time for the Federal minimum wage of $7.25 an hour and participated in all Federal programs for which she was eligible. I further assumed her child was 3 years old, that childcare cost her $700 a month, that she pays $600 a month in rent, and has $1,000 in assets as well as a vehicle worth $3,000. I evaluated the effect on her net income of a $2.85 pay increase to $10.10 an hour. Anyone can replicate my results by entering these assumptions into the NICC.

The NICC shows that, with the raise, the single mother earns $494 more a month in market income. However, after taxes and benefits her net income falls by $264. The mother pays $152 more in total taxes (including a smaller EITC refund) and loses over $600 in government benefits. The bulk of these benefit reductions ($528) came from losing eligibility for childcare subsidies. Iowa's childcare subsidies slowly decrease over a limited income range until they hit a threshold earnings amount. At that point, they phaseout entirely. In 2008, that threshold was less than $10.10 an hour in a full-time job, so a parent getting a raise to $10.10 an hour would lose eligibility for all childcare subsidies.

Senator Harkin's staff contacted the Iowa Department of Human Services and obtained an updated childcare fee chart indicating that a single mother of one child would currently lose $120 in benefits if her pay was raised to $10.10 an hour. Urban Institute staff determined that Senator Harkin's staff is correct. Inflation adjustments have increased the phase-out threshold for a full-time worker to about $10.56 an hour. (The fee chart that Senator Harkin's staff provided has subsidies for higher income amounts, but these only apply to the parents of children with disabilities.)

In 2013, a raise to $10.10 an hour would reduce the mother's benefits by approximately $220, not the $600 I reported. So she faces an effective marginal tax rate of 75 percent over that income range.[14] If, however, that mother received a further 50 cent raise she would lose eligibility for all childcare subsidies. The loss in subsidies at $10.57 an hour would leave her financially worse off than if her pay had remained at $7.25 an hour.

The structure of existing social assistance programs heavily penalizes low-income workers who work additional hours or earn raises. The *Des Moines Register* reported on this problem, and highlighted a case of a single mother who began working only 4 days a week to maintain her eligibility for childcare benefits, even though she would have preferred to work full-time:[15]

> Single mother Stacia Mattix of Des Moines faced losing child care assistance in December because she was making 30 cents more than allowed. The 30 cents was not going to cover the more than $300 a week she received in assistance for her two children, ages 3 years and 18 months.
>
> Her solution was to drop a day from work to remain qualified, which has cost her around $80 a week in income.
>
> "I think it's unfair for the people who are working and trying to make a decent living that they can't get any help because they make a teeny-tiny bit over," said Mattix, 22.
>
> Mattix feels stuck. Her children must attend a child care center because of the hours she works. In-home child care would be cheaper, but she cannot find one that opens at 5:45 a.m.
>
> "Making $10.81 an hour is not going to make up $300 a week for day care," Mattix said. "I think something needs to be done about it."

Minimum wage increases occur in the income zone where these phase-out and threshold effects are most severe. Suburban teenagers who do not qualify for these benefits would enjoy the full benefit from a higher wage rate (assuming they kept

[14] Her market income would rise by $494 ($2.85/hour *40 hr/week *4.33 weeks/month) but she would forfeit $152 in higher taxes, $88 in SNAP benefits, and $129 in childcare subsidies, for a net increase in income of $125—just 25 percent of her additional earnings. Note that the figure Senator Harkin's staff calculated on childcare subsidies assumed a 4-week month, the NICC calculations assume 4.33 weeks per month. This explains the difference between $120 and $129 in lower subsidies.

[15] Sara Sleyster, "'Child care cliff' makes it tough for working poor to get ahead," *The Des Moines Register*, March 17, 2013, *http://www.desmoinesregister.com/article/20130318/NEWS/303180039/-Child-care-cliff-makes-tough-working-poor-get-ahead*.

their jobs). But low-income adults receiving government assistance would forfeit much of the economic value of their higher pay.

The government has created a system in which low-income adults benefit little from moderate increases in their pay—either through working longer hours, earning a raise, or a higher minimum wage. This is one of the reasons that just 9 percent of adults in families living below the poverty line work full-time year-round. They are responding rationally to the incentives the government has created.

Question 4. In response to your concern about work disincentives, it was suggested that if you were opposed to minimum wage increases due to the effect government social program phase-outs have in consuming most of the additional resulting income, then you must be in favor of increasing government benefits, or vice versa. It was asserted that by advocating against increasing the minimum wage as well as against increasing government benefits, you were arguing "two absolutely contradictory points." Please explain and clarify your position on how the Federal Government should modify government benefit phase-outs to reduce disincentives to work, and how that position relates to the proposed minimum wage increase.

Answer 4. Government social programs create extremely high effective marginal tax rates for low-income families. That is to say, as their income rises—either through a raise or a minimum wage hike—they both pay more in taxes and lose benefits. Many families with hourly earnings near the Federal minimum wage face effective tax rates in excess of 70 percent—and in some cases over 100 percent—if their pay increased by $1 to $3 an hour.

These punishingly high effective tax rates occur because of Federal welfare programs. Congress never coordinated their phase-out rates across programs—consequently workers lose benefits from multiple programs at once over the same income zone. Congress should restructure these programs, such as by having them phaseout sooner, to limit effective tax rates to no more than 50 percent over any income zone.

Without such a reform, a minimum wage increase can do little to help low-income families, even if they keep their jobs. The same applies to raises low-income families earn without Federal intervention. Two-thirds of minimum wage workers earn a raise within a year, but those living near poverty experience little net financial benefit from this pay increase. The structure of social assistance programs discourages workers from gaining the experience and skills that would enable them to rise out of poverty.

Question 5. You testified about the effects of large minimum wage increases on the economy of American Samoa. Do these effects provide any lessons for the United States in considering whether to increase the Federal minimum wage? Please explain.

Answer 5. The Federal minimum wage affects very few Americans—less than 3 percent of all workers. Changes in the minimum wage, while significant for those impacted, have little aggregate effect on the economy. Consequently advocates of a higher minimum wage can argue, with little risk of contradiction, that minimum wage hikes stimulate the economy—it is difficult for economists to tease out the small effects of the higher minimum wage from other factors impacting GDP. Supporters of raising the minimum wage now routinely argue that it would give workers more money, leading them to spend more, stimulating demand and the overall economy.

American Samoa put these theories squarely to the test. Congress planned to gradually increase American Samoa's minimum wage to the Federal level of $7.25 an hour. At that rate it would have covered 80 percent of all hourly workers in the territory's economy—the equivalent of a $20 an hour increase in the continental United States. Congress suspended the minimum wage increase when it got to $4.76 an hour. At that point it covered two-thirds of employees in the tuna canning industry, the territory's largest industry.

Such a large increase in the minimum wage had a large and visible impact on American Samoa. But it did not increase purchasing power, stimulate demand, or raise living standards. Instead the tuna canning industry contracted sharply and unemployment septupled from 5 percent to 36 percent; higher than anything America experienced during the Great Depression.[16] While wages grew, inflation grew

[16] Written testimony of American Samoa Governor Togiola Tulafona before the Subcommittee on Fisheries, Wildlife, Oceans and Insular Affairs of the Committee on Natural Resources, U.S. House of Representatives, September 23, 2011, Table 3.

faster, and so inflation-adjusted pay fell 11 percent.[17] The islands' Democratic Governor attributed virtually all of this economic damage to the minimum wage hike and begged Congress to suspend the increases.[18]

American Samoa's experience demonstrates that minimum wage hikes do not produce virtuous self-reinforcing economic cycles that lead to general prosperity and growth. It also shows that employers respond to higher minimum wages the way economic theory suggests: by hiring fewer workers. Congress should weigh these costs carefully as it considers minimum wage increases. Congress had good intentions when it raised the minimum wage, but the hike hurt many of the workers Congress wanted to help.

Question 6. At the hearing, it was said that there are always individuals who are willing to work for less and are willing to undercut others because they desperately need the work. Do you agree this is a problem?

Answer 6. One of the problems with the minimum wage is that it makes it harder for those who need jobs the most to get them. Workers have different reservation wages—the lowest wage they will accept to work in a job. Generally speaking, the more an individual needs a job the lower their reservation wage. Workers with other options, such as teenagers supported by their parents, require higher wages to induce them to work.

Increased minimum wages encourage workers with higher reservation wages to enter the job market. They compete for job openings with workers with lower reservation wages who would have applied anyway. As a result, the workers most in need of jobs—and the opportunity to gain skills and earn raises—become less likely to get hired.

SENATOR MURRAY

Question. In your testimony, you discussed about the effect of increasing the minimum wage on people working minimum wage jobs. However, in Washington State, where the minimum wage is nearly $2 per hour higher than the national rate, we have seen benefits for a far larger group of low-income workers. Workers earning just above the minimum wage have also seen higher wages, putting more money into their pockets that they've spent in the Washington State economy. These workers may not qualify for as many Federal benefits as workers earning only the minimum wage, and an extra few dollars in their paycheck can make a big difference in helping them make ends meet. Do you agree that the benefits to those workers need to be taken into account when considering the effects of an increase in the minimum wage?

Answer. I would agree the costs and benefits to all workers should be taken into account when considering increasing the minimum wage. This includes the extent to which employers raise the pay for employees earning near the minimum wage, and the extent they reduce or increase hiring in this group.

Policymakers should also evaluate why pay rises for workers earning near the minimum wage. One theory holds that employers want to maintain internal wage differentials—they do not want to pay more experienced workers' entry-level wages. Analysis shows these "ripple effects" occur to a limited degree.[19]

Minimum wage increases can also raise the pay of higher earners through "substitution effects." Many companies face a basic choice: they can either (a) hire many low-wage, unskilled workers to do the job or (b) hire a smaller number of more highly skilled and highly paid workers and use more machines to perform the same work. This does not apply to all industries, of course—highly skilled workers are not much more productive as house cleaners, and a modern automotive factory has no place for unskilled workers. However, many businesses face this choice.

Minimum wage increases make hiring unskilled workers more expensive without raising their productivity. This increases the demand for more skilled workers, improving their job opportunities and earnings at the expense of inexperienced workers.

These "substitution effects" are the primary way that unions benefit from minimum wage increases. Unionized workers tend to be more highly paid and highly skilled than the population as a whole. They benefit when Congress makes it harder

[17] Government Accountability Office, *American Samoa and the Commonwealth of the Northern Mariana Islands: Employment, Earnings, and Status of Key Industries Since Minimum Wage Increases Began*, Report No. GAO–11–427, June 2011, Table 2.

[18] Written testimony of American Samoa Governor Togiola Tulafona.

[19] Jeannette Wicks-Lim, "Mandated wage floors and the wage structure: Analyzing the ripple effects of minimum and prevailing wage laws," Ph.D. dissertation, University of Massachusetts-Amherst, September 2005.

for less-skilled workers to compete against them. Research shows that a 20 percent increase in the minimum wage raises the pay of unionized workers who earn twice the minimum wage by 10 to 20 percent.[20]

Unfortunately, this comes at the cost of decreasing the earnings of families with minimum wage workers. While those who keep their jobs make more, employers cut back on hiring and hours of less-skilled workers. Consequently the total earnings of minimum wage workers drop.[21]

[Whereupon, at 4:54 p.m., the hearing was adjourned.]

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[20] David Neumark, Mark Schweitzer, and William Wascher, "The Effects of Minimum Wages Throughout the Wage Distribution," National Bureau of Economic Research *Working Paper* No. w7519, February 2000, at *www.nber.org/papers/w7519*. Figure 3 shows that a 10 percent increase in the minimum wage increases these union members' earned income by 5 to 10 percent. Thus, a 40 percent increase could increase their earned income by 20 to 40 percent.

[21] *Ibid*., Figure 4B.