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FAIR LABOR STANDARDS AMENDMENTS OF 1977

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HEARINGS

BEFORE THE

SUBCOMMITTEE ON LABOR

OF THE

COMMITTEE ON HUMAN RESOURCES

UNITED STATES SENATE

NINETY-FIFTH CONGRESS

FIRST SESSION

ON

S. 1871

TO AMEND THE FAIR LABOR STANDARDS ACT OF 1938 TO INCREASE THE MINIMUM WAGE RATE UNDER THAT ACT, TO PROVIDE FOR AN AUTOMATIC ADJUSTMENT IN SUCH WAGE RATE, AND TO ADJUST THE CREDIT AGAINST THE MINIMUM WAGE WHICH IS BASED ON TIPS RECEIVED BY TIPPED EMPLOYEES

AND RELATED BILLS

JULY 28; AUGUST 1, 2, 3, 4, AND 5, 1977

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FAIR LABOR STANDARDS AMENDMENTS OF 1977

THURSDAY, JULY 28, 1977

U.S. SENATE,
SUBCOMMITTEE ON LABOR OF THE
COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:34 a.m., in room 4232, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman) presiding.

Present: Senators Williams, Javits, and Stafford.

The CHAIRMAN. Today we begin our deliberations on the 1977 Fair Labor Standards Amendments. The bill before the subcommittee is S. 1871, which I introduced, with Senator Javits, on July 15, 1977.

This proposed legislation will increase the minimum wage to $2.65 per hour, effective January 1, 1978, which is approximately 51 percent of the average straight time hourly earnings of production workers in manufacturing during the 12-month period ending last June 30.

Under this bill, the minimum will be increased again on January 1, 1979, to an amount which will be 52 percent of the average straight time hourly earnings of production workers in manufacturing for the 12-month period ending June 30, 1978. Effective January 1, 1980, and each January thereafter, the minimum will be increased to 53 percent of average straight time hourly earnings for the base period ending the previous June 30.

I regard this package as the least we can do for our Nation's working poor. The $2.65 minimum wage, which will be effective January 1, will result in an annual income for a full-time, year-round worker of approximately $5,500. This is less than the present poverty level for a nonfarm family of four. In 1976, the poverty level for a nonfarm family of four was $5,800 per year.

This year, and next year, the gap between the poverty level wage and the minimum wage will be even greater if the Congress does not enact S. 1871.

The concept of "indexing" the minimum wage, which this bill employs to provide for annual adjustments is fundamental to maintaining an adequate wage for the working poor. Inflation takes its toll on everyone, but poor workers and their families, who must spend everything they earn merely to get by, feel its effects much more sharply than other workers in our society.

Another important aspect of this bill is the gradual phasing out of the tip credit. Under this legislation, the tip credit will be reduced from its present level of 50 percent of the minimum wage to 45 percent effective January 1, 1978; 40 percent on January 1, 1979; 30 percent on January 1, 1980; 20 percent on January 1, 1981; 10 percent

on January 1, 1982, and effective January 1, 1983, the tip credit will be repealed.

In addition, the definition of a tipped employee is amended, effective January 1, 1978, to more accurately reflect the realities of tipping practices affecting low-wage workers.

We know that opponents of the minimum wage will, as they have in the past, argue that an increase will cause inflation and unemployment. However, under S. 1871, the annual wage bill increase required will be only four-tenths of 1 percent—0.4 percent—for each of the first 2 years, and five-tenths of 1 percent—0.5 percent—for the 3rd year. However, even if this increase were inflationary, it is difficult to conceive how one could weigh the impact of this modest minimum wage increase more heavily than the need to provide an adequate standard of living for working people.

I also expect that the committee will be told that an increase in the minimum wage will cause more unemployment. However, the facts conclusively demonstrate that employment has increased consistently during every period of minimum wage increase.

We have many means of combating inflation and unemployment in our society. It is time that we put a stop to the arguments that one of those means should be to keep our poorest paid workers at a wage level and standard of living far below the poverty level.

Therefore, it is my hope that both this committee and the Congress will act promptly in approving this most important legislation. With this legislation, as with most others this Senate Subcommittee on Labor has generated.

[The bill S. 1871 and a related bill follows:]

95TH CONGRESS
1ST SESSION

S. 1871

IN THE SENATE OF THE UNITED STATES

JULY 15 (legislative day, MAY 18), 1977

Mr. WILLIAMS (for himself and Mr. JAVITS) introduced the following bill; which was read twice and referred to the Committee on Human Resources

A BILL

To amend the Fair Labor Standards Act of 1938 to increase the minimum wage rate under that Act, to provide for an automatic adjustment in such wage rate, and to adjust the credit against the minimum wage which is based on tips received by tipped employees.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE: REFERENCE TO ACT

SECTION 1. (a) This Act may be cited as the "Fair Labor Standards Amendments of 1977".

(b) Whenever in this Act an amendment or repeal is expressed in terms of an amendment to, or repeal of, a section or other provision, the reference shall be considered to

be made to a section or other provision of the Fair Labor Standards Act of 1938 (29 U.S.C. 201–219).

INCREASE AND AUTOMATIC ADJUSTMENT IN MINIMUM WAGE

SEC. 2. (a) Section 6(a)(1) (29 U.S.C. 206(a)(1)) is amended to read as follows:

"(1) during the period beginning on the first day of January 1978, and ending December 31, 1978, not less than $2.65 an hour; during the period beginning on the first day of January 1979, and ending December 31, 1979, not less than 52 per centum of the average straight time hourly earnings of production workers on manufacturing payrolls, for the twelve-month period beginning July 1, 1977, and ending June 30, 1978; and during the year beginning January 1, 1980, and during each succeeding year not less than 53 per centum of the average straight time hourly earnings for the twelve-month period ending on June 30 next preceding the beginning of such year of production workers on manufacturing payrolls; except as otherwise provided in this section;".

(b) Section 6(a)(5) (29 U.S.C. 206(a)(5)) is amended to read as follows:

"(5) if such employee is employed in agriculture during the period beginning on the first day of January

1978, not less than the minimum wage rate in effect under paragraph (1).".

(c) Section 6(b) (29 U.S.C. 206(b)) is amended by striking out "wages of the following rates:" and paragraphs (1) through (4) and inserting in lieu thereof the following: "wages at the following rate: Effective on and after the first day of January 1978, not less than the minimum wage rate in effect under subsection (a)(1).".

(d) Section 6(a) is amended by adding after and below paragraph (5) the following:

"Not later than August 31 of each year, the Secretary shall publish in the Federal Register the average straight-time hourly earnings, during the twelve-month period ending on the next preceding June 30, of production workers on manufacturing payrolls.".

TIP CREDIT

SEC. 3. (a) Effective January 1, 1978, section 3(m) (29 U.S.C. 203(m)) is amended by striking out "50 per centum" and inserting in lieu thereof "45 per centum".

(b) Effective January 1, 1979, such section is amended by striking out "45 per centum" and inserting in lieu thereof "40 per centum".

(c) Effective January 1, 1980, such section is amended by striking out "40 per centum" and inserting in lieu thereof "30 per centum".

(d) Effective January 1, 1981, such section is amended by striking out "30 per centum" and inserting in lieu thereof "20 per centum".

(e) Effective January 1, 1982, such section is amended by striking out "20 per centum" and inserting in lieu thereof "10 per centum".

(f) Effective January 1, 1983, the last two sentences of such section are repealed.

DEFINITION OF TIPPED EMPLOYEE

SEC. 4. Section 3 (t) (29 U.S.C. 203 (t)) is amended to read as follows:

"(t) (1) 'Tipped employee' means any employee engaged in an occupation in which he customarily and regularly receives in tips in a month more than the average monthly tips published by the Secretary under paragraph (2) and applicable to such month.

"(2) The Secretary shall not later than November 30, 1977, and November 1 of each succeeding year publish in the Federal Register the average monthly tips per employee received in the twelve-month period ending on June 30 of such year by all employees in hotels, motels, restaurants, and other food service establishments which shall be computed by determining the product of—

"(A) the average (as determined by the Secre-

tary) hours of employment in each month of such period of such employees, and

"(B) the average maximum amount which under subsection (m) may be credited in such period toward an employer's minimum wage obligation.

The average monthly tips published under this paragraph shall be used in the year following such publication in determining whether an employee is in such year a tipped employee.".

EFFECTIVE DATE

SEC. 5. (a) The amendments made by sections 2 and 3 of this Act shall take effect on the first day of January 1978, except that on and after the date of enactment of this Act the Secretary of Labor shall take such administrative action as may be necessary to enable such amendments to be implemented on and after such day.

(b) The amendment made by section 4 shall take effect on January 1, 1978, except that the Secretary of Labor shall, no later than November 30, 1977, make the publication prescribed by section 3 (t) (2) (as amended by section 4 of this Act).

(c) Effective January 1, 1983, section 3 (t) is repealed.

95TH CONGRESS
1ST SESSION

S. 1038

IN THE SENATE OF THE UNITED STATES

MARCH 18 (legislative day, FEBRUARY 21), 1977

Mr. CURTIS introduced the following bill; which was read twice and referred to the Committee on Human Resources

A BILL

To amend the Fair Labor Standards Act of 1938 with respect to an exemption for certain young employees who enter into an agreement with an employer to work for an agreed upon wage that is less than the minimum wage, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That section 13(a) of the Fair Labor Standards Act of 1938 is amended by striking out the period at the end of paragraph (15) of such section and inserting in lieu thereof a semicolon and the word "or", and by adding at the end thereof the following new paragraph:

"(16) any employee who is employed pursuant to

an agreement with an employer to work for a wage that is less than the minimum wage if—

"(A) the employee—

"(i) has not attained twenty-five years of age; and

"(ii) files a statement with the Department of Labor that at the time of his employment he was unemployed and had never been employed for a continuous period of six months or more; and

"(B) the employer agrees to employ the employee for a period not to exceed one year at the agreed upon wage.".

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The CHAIRMAN. Senator Javits is a cosponsor. I appreciate that fact.

Senator JAVITS. Thank you, Mr. Chairman. I will be very brief.

First, I associate myself with what the chairman said.

Second, it is to be pointed out that a readjustment of the 1968 minimum wage rate, based on the cost of living, would put it at $2.75 an hour today—above the opening figure in this bill. Even at $2.95 per hour, a family would still be at the poverty level at that minimum wage.

The bill gradually brings the minimum wage up to the poverty level and protects minimum wage employees from inflationary effects through the concept of indexing. Now, normally, I have been opposed to indexing the prices of commodities, et cetera, that face inflationary problems in the world forum.

But in this context, in view of the fact that many, many collective bargaining agreements are indexed, social security is indexed, and many veterans' benefits are indexed, I do not see how we can avoid it in this situation.

Therefore, I believe that indexing must be considered sympathetically for the minimum wage.

Third, I have grave reservations about the phased elimination of the tip credit. It looks to me like a way to very materially increase the minimum wage in these employments where tips are given, and that we could have a very serious and adverse economic effect for tipped employees as well as for the businesses involved.

So I shall expect to listen to the testimony on that with the greatest care.

Finally, I might inform the Secretary, Mr. Chairman, that we are going to have a very broad scale attack on this minimum in an effort to get a youth differential. That will surface very materially, because of the tremendous impact of unemployment on youth.

Mr. Secretary, we are going to be put very strongly to our proof this time. Probably more strongly than ever, and I hope very much therefore that you will be able to give us the necessary factual support to fight that battle, because it is going to be a real one, and might prove to be the main issue which we have to face in respect to the minimum wage. But I would like to reaffirm my association with the chairman, we have been a pretty good team up to now, and I hope that——

The CHAIRMAN. You are ominous.

Senator JAVITS. I hope that our fairly good batting average may continue.

I join today with Senator Williams, chairman of the Committee on Human Resources, in cosponsoring legislation to increase the minimum wage rate. I am pleased that the President has indicated his support of the wage and indexing provisions of this bill, for this is legislation that is both overdue and vital to the working poor.

The last minimum wage legislation was enacted in 1974, and did not anticipate the extraordinary rises in wages and living costs that have since taken place. As a result, millions of American workers are being paid minimum wages which will not even provide a poverty level standard of living as defined by the U.S. Government for an urban family of four. Yet, Congress' declared policy in enacting the Fair Labor Standards Act was to protect "the maintenance of the minimum

standard of living necessary for the health, efficiency, and general well-being of workers."

Just to keep up with increases in the cost of living since the 1968 minimum wage level would today require a minimum of $2.74 per hour. More importantly, a wage of $2.95 an hour is necessary today simply to support a family at the poverty level. This bill does not go that far; rather, it provides an increase on January 1, 1978, to $2.65, and further increases on January 1, 1970 and January 1, 1980, respectively, to the equivalent of 52 and 53 percent of the average straight time hourly earnings of production workers on manufacturing payrolls.

This concept of indexing the minimum wage rate represents a vital protection against inflation for those workers in our society least able to protect themselves. It is incongruous that Federal employees, many union workers under labor contracts, and social security recipients receive such protection, while the working poor are expected to cope with the rising cost of living by themselves, even though they are the least able to do so.

Indexing also offers the advantage to employers of regular, predictable wage rate adjustments. This approach promises to allow the Congress time to consider such issues as the scope of coverage and the elimination of the existing exemptions in future sessions without also having to reconsider the basic minimum wage rate. The issue of what particular statistical measure is best used as the index for minimum wage is, however, one that the committee will need to explore thoroughly.

During these hearings we will again, of course, consider the effects of raising the minimum wage on the Nation's economy. It should be borne in mind, however, that the Fair Labor Standards Act is not premised on economic principles alone. We learned long ago that simply to give full rein to free market concepts will sometimes operate to the detriment of our society. We have higher values than pure economic efficiency, as we have demonstrated time and time again through legislation enacted for the benefit of our Nation's working men and women. One of the most important of these is the Fair Labor Standards Act in which we declared the dignity of every citizen who works as our preeminent value. As we approach these minimum wage amendments, for the 10th time since the original enactment of the FLSA, I trust that this point will not be lost while employers, union leaders, economists and others trade charges and press their views before the Congress.

This bill does not address the scope of coverage of the Fair Labor Standards Act. The committee is awaiting the complete reports of the Labor Department, with regard to the remaining exemptions, that were mandated by the 1974 FLSA amendments; I look forward to receipt of the Labor Department's recommendations which will be the basis of our subsequent legislative efforts toward more expansive coverage.

The bill also provides for the phased elimination of the tip credit and redefines "tipped employee" to make the tip credit inapplicable to employees who do not customarily receive a substantial amount of tip income. The bill defines tipped employees as those who receive more than a set figure per month in tips, the amount calculated by multi-

plying the average hour of employment per month for all tipped employees by the dollar amount of the tip credit allowed to the employer for the applicable period. In effect, this provision next year will raise the present floor from $20 per month to approximately $135 per month in tips received before an employee becomes subject to the tip credit. This amount will increase incrementally in succeeding years.

I have serious reservations at this time as to the equity and wisdom of a complete repeal of the tip credit. I have not determined as a matter of fact just how many tipped employees have incomes below the poverty level, receive average hourly compensation at or near current minimum wage levels, or require a doubling of their legislated wage levels in addition to tip income in order to maintain "the minimum standard of living necessary for health, efficiency, and general well-being," which is the stated purpose of the act. The redefinition of tipped employee must also be fully evaluated, although I commend its basic intent of targeting wage increases for those whose need is greatest—the tipped employees at the bottom of the scale. I expect that the committee will thoroughly investigate these proposals during its hearings on the bill.

I believe this bill should be a top priority matter for this Congress, and I hope that we can act on it promptly.

The CHAIRMAN. Thank you, Senator Javits, and we are very pleased to have as our first witness Labor Secretary Ray Marshall.

STATEMENT OF HON. F. RAY MARSHALL, SECRETARY OF LABOR, ACCOMPANIED BY DONALD ELISBURG, ASSISTANT SECRETARY OF LABOR FOR EMPLOYMENT STANDARDS; CARIN ANN CLAUSS, SOLICITOR OF LABOR; AND XAVIER M. VELA, ADMINISTRATOR, WAGE AND HOUR DIVISION, EMPLOYMENT STANDARDS ADMINISTRATION

Secretary MARSHALL. Thank you, Mr. Chairman.

I am very pleased to be here to discuss the administration's position on the minimum wage legislation.

Let me introduce the people who are accompanying me today. On my left is Carin Ann Clauss, who is Solicitor of Labor. And on my immediate right is Donald Elisburg, Assistant Secretary of Labor for Employment Standards. And next to him is Xavier Vela, who is Administrator of the Wage and Hour Division, Employment Standards Administration.

As you know, one of the administration's first steps was to recommend an increase in the minimum wage for all covered workers. I testified in March on that measure before the House Subcommittee on Labor Standards. There was considerable disagreement over our initial approach. Since then, we have discussed this issue with Members of Congress, as well as business, labor and other groups. Two weeks ago, President Carter, at his press conference, announced that he agreed with the minimum wage proposal which is now included in your bill, and in the bill that is moving through the House of Representatives.

This proposal would raise the current minimum wage of $2.30 an hour ($2.20 for farmworkers) to $2.65 an hour on January 1, 1978. On January 1, 1979, the minimum wage would be adjusted to equal 52

percent of straight-time hourly earnings of production workers in manufacturing. On January 1, 1980, the minimum wage would be permanently set at 53 percent of the average manufacturing wages.

Our current calculations estimate that the minimum wage under this formula would be $2.89 an hour on January 1, 1979. We estimate that the minimum wage would rise to $3.15 an hour on January 1, 1980. Of course, final figures will depend on changes in the basic manufacturing wage over the next 2 years.

When the administration initially proposed a minimum wage of $2.50 an hour, we had assumed that it would take effect on July 1 of this year. When it became clear that an increase in the minimum wage would not take effect this year, we revised our calculations. It is against this backdrop that we believe that a minimum wage of $2.65 starting on the first day of next year would be reasonable.

Before I discuss our proposal in detail, I would like to outline some basic concepts underlying minimum wage standards. Substandard wages not only make it difficult for workers to support themselves and their families, but also give employers who pay substandard wages an unfair advantage over their competitors.

Almost 40 years after it was originally enacted, the Fair Labor Standards Act continues to reflect sound social and economic policy. I also want to assure you that I and the Department of Labor are committed to a vigorous enforcement of minimum wage standards.

In developing the administration's position on the minimum wage, my major concern has been to protect low-income workers from the ravages of inflation. Many workers receiving the minimum wage do not have the organizational power to bargain collectively. These are workers who generally only receive pay raises when Congress increases the minimum wage. But these are also the same workers who must constantly battle higher food and fuel costs. That is why equity demands an increase in the minimum wage.

In reviewing this issue, I find it puzzling that we always hear the argument that raising the minimum wage will accentuate inflation. Generally, minimum wage rates have been raised periodically to offset the erosion of purchasing power caused by inflation. It is now 3 years since the last time the minimum wage was raised. I do not have to tell you how severe inflation has been since then. The effect of this inflation has been to reduce the minimum wage from 55 percent of straight-time earnings in manufacturing to 43 percent of that rate in May 1977.

Both our original proposal in March and the recent compromise contain two basic components that are very important: one, a single basic minimum wage for all covered workers; and two, an indexing formula which will help prevent the erosion of the minimum wage if prices and other wages increase in the future.

Another question that frequently arises is the impact on employment of an increase in the minimum wage. All increases in wage costs do have some impact on employer hiring decisions. But so do increased costs of raw materials and the other elements of doing business. Any argument against raising the minimum wage could also be applied to all wage and salary increases in the economy. I want to stress that the benefits of raising the minimum wage far outweigh any potential harm caused by the increase.

I share your concerns about the current wasteful and intolerable levels of unemployment. There is no resource as precious, or as perishable, as human labor. If a day's labor is lost, it can never be replaced. I believe that the administration's stimulus package and the Youth Employment and Demonstration and Projects Act of 1977, which Congress enacted a few days ago, represent the best way to go about lowering unemployment. For example, the youth bill will go a long way to lower the unacceptably high levels of unemployment for teenagers. An increase in the minimum wage will also stimulate aggregate demand by increasing the purchasing powers of low-income workers. I also feel that an increase in the minimum wage would prompt employers to increase productivity and efficiency, which is a key to restoring the health of the whole economy.

The most recent amendments to the Fair Labor Standards Act occurred in 1974 and are now fully implemented, except for a final wage increase for farmworkers scheduled for January 1, 1978. At current levels, a full-time worker earning the minimum wage makes less than $5,000 a year.

It is clearly impossible to adequately support a family on an income that low. This administration is deeply concerned about the problems of the working poor. One part of our strategy for dealing with this problem is to increase the minimum wage to equitable levels.

I would now like to talk about a few of the new components in this bill. As I have already indicated, this proposal would eliminate different minimum wages for different categories of coverage. We believe that this is an artificial and discriminatory approach to setting minimum-wage rates. The costs of raising a family are the same no matter what your job is.

One of the most important elements in this bill is the indexing formula. This would finally protect minimum-wage workers from long delays between increases in their wages. We recognize that delay is an understandable byproduct of legislation as controversial as the minimum wage. Our experience this year illustrates this problem. I believe that indexing has strong advantages for both workers and their employers. For the workers, it would eliminate the irregular pattern of increases in the minimum wage. It would also enable employers to plan for and anticipate adjustments in their pay systems on a regular basis. And, the real incomes of minimum-wage workers would be less susceptible to being eroded by inflation.

I would also like to stress that this proposal would also strengthen incentives to work. This administration believes that the able bodied should be paid more when they work than when they do not work. Currently, when the minimum wage lags far behind inflation, it sometimes also becomes lower than welfare payments. This is clearly an intolerable situation. An increasing minimum wage, adjusted annually, will keep the wage rates of low-income workers significantly above welfare benefits. This will serve as an important incentive to draw people away from welfare dependency and into better paying jobs.

Indexing would be a major departure from our current method of adjusting the minium wage. As a result the annual report of the Secretary of Labor to the Congress under section 4(d) of the FLSA should contain a specific study of the effects of indexing as a way to set the minimum wage. Such a study would review the performance

of indexing and its effect on the economy. The report of the Secretary of Labor would, of course, continue its review of the employment effects of minimum wage increases as they occur.

I would also like to briefly discuss two other issues which I believe are of interest.

One issue that seems to surface every time the minimum wage is discussed is a youth subminimum. As I mentioned earlier, I am very concerned about the high unemployment rate among young people. That is why I consider the Youth Employment and Demonstration and Projects Act to be such a landmark piece of legislation.

Nonetheless, I vigorously oppose any effort to deal with this problem by establishing a lower minimum wage for youth. The arguments against such a youth differential are compelling. I fear that any youth differential would encourage employers to lay off adults with families to support and replace them with young people at lower wages. Not only would this not solve our basic unemployment problems, but such an approach would also create a host of new problems. I do not believe in trading off adult unemployment for youth unemployment.

Moreover, a young subminimum wage would run counter to the thrust of the Fair Labor Standards Act. This act calls for a basic minimum wage consistent with a minimum standard of living for all workers. My view is that the best way to attack youth unemployment is through comprehensive measures like the recently passed youth bill. We believe that the combination of public service jobs and work experience programs in this bill are the best way to combat this serious problem.

Another issue involves workers who derive a portion of their income from tips. Tipped employees are a group with a unique pay structure which involves compensation that combines wages and tips. Under existing law, tips received by these employees may be counted as wages for up to 50 percent of the required minimum wage.

Your bill would phase out this tip credit by 1983. The House bill would gradually reduce the maximum allowance for tips to $1 an hour beginning January 1, 1981. Our opposition to these provisions is based on two factors. One is the lack of information about whether this change would actually result in an increase in combined wage and tip earnings. A reduction in percentage terms of the tip credit may induce some employers to replace tips with a service charge. This could lower the combined wages and tips of these employees.

The other problem is the substantial additional costs to employers of tipped workers, particularly in the restaurant, hotel, and motel industries. Taking into account the proposed new minimum-wage levels, we estimate that these increased costs will run into the millions of dollars. Our figures project a cost of $65 million in 1978, $114 million in 1979, $172 million in 1980, and $185 million in the fourth year after the effective date. As a result, we oppose any change in current law.

One final point. The Fair Labor Standards Act makes it illegal for an employer to discharge or otherwise discriminate against an employee who files a complaint or participates in a proceeding under this act. This act does not, however, authorize the employee to institute any legal action to protect this right, although he does have the authority to sue for unpaid wages. As a result, the only avenue open to a wrongfully discharged employee is to persuade the Department of

Labor to file suit in his behalf. This arrangement places a heavy burden on the Department of Labor's resources. It also leaves the employee without a remedy in those cases where the Department decides not to sue.

An amendment giving these employees the right to file suit in their own behalf would allow employees to pursue their own legal rights. It would also relieve the Labor Department of some of its enforcement burden in this area.

In closing, Mr. Chairman, I would like to say a word about the need to move this important legislation toward passage. Like all compromises this proposal will not fully satisfy everybody. But we believe that it is an equitable way to deal with the problem of a depressed minimum wage level. Further delay in passing this legislation would only compound the serious problems of low-income workers. That is why I urge you to move quickly to bring equity to the workers at the low end of the income scale.

I want to assure you of the commitment of this administration to making needed improvements in the Fair Labor Standards Act. And, I look forward to assisting you as you proceed toward passage of this important legislation.

Thank you, Mr. Chairman. I will be happy to try to respond to your questions.

The CHAIRMAN. Excellent statement, as usual.

Secretary MARSHALL. Thank you.

The CHAIRMAN. I have just a feeling—with regard to your last point, Mr. Secretary, which I gather here we have not considered in formulating our legislation, the private action?

Secretary MARSHALL. Yes, sir.

The CHAIRMAN. Just to clarify the position of the worker now, is it correct that there is no personal action for back pay?

Secretary MARSHALL. Back pay—excuse me.

The problem we have, as you know, and in most of our legislation, is that it is not self-enforcing.

It is very difficult for us to adequately enforce the law with resources available to us. We, therefore, have to rely as much as we can on complaints by workers who are affected, in order to get enforcement, and this concern is a good bit.

We also have limited resources in bringing suits, and there might be delays that could affect the workers' rights, so that they cannot bring suits themselves for enforcement, and their rights are not adequately protected under the law, and we think it will strengthen both our ability to enforce the law, and the workers' ability to secure rights under the act, if this amendment is made.

The CHAIRMAN. Was this suggested when you testified on the House side before they marked their bill up in committee over there?

Secretary MARSHALL. No, we did not.

The CHAIRMAN. This idea was not raised at the House hearings. Was it raised in the committee?

Secretary MARSHALL. I do not think it was in the committee. We did not think to get it in there. But we think it would be a good idea to be considered now.

The CHAIRMAN. What would be the nature of the action? The worker can now sue for unpaid back wages, the claims that are due

under the minimum wage, what would be the nature of the action that you would propose?

Secretary MARSHALL. Well, what would happen under this proposal is not only would we sue for back pay, but for reinstatement if you had been unjustly discharged because you complained, and that protects you against the loss of your job. And we think if employers knew employees had this added right, it would deter them from their rights under the act.

Let me see if my solicitor would like to add anything.

Ms. CLAUSS. That is it.

Secretary MARSHALL. Since I am not a lawyer, I have to give it out in my own way.

The CHAIRMAN. What action would be taken to get the employer to change the wage?

Secretary MARSHALL. Now, so far, there are only acts in the missing needs here, and that is to get the employer to change the wage rates. If he persists, then he gets sued for back wages again.

The CHAIRMAN. Is there any way to enjoin that rate, or get them to pay the legal rate?

Ms. CLAUSS. There is no point of action.

The CHAIRMAN. But under your proposal, is there?

Ms. CLAUSS. No, because we feel we have the resources to bring the injunction suit.

The kind of problem we are concerned about here is where an employee complains to us that he was being unpaid, underpaid; if we bring a suit on his behalf and on behalf of his coworkers, and we win, and the wages are raised, but a month later that employee loses his job.

Now, we have to decide whether we can afford the resources to get this man's job back, or to use the resources to get wages increased elsewhere. We want him to have that private right, as well as our right, you see?

The CHAIRMAN. You will still be the sole enforcement agency in getting the rate changed?

Ms. CLAUSS. That is right. We are proposing no change there.

The CHAIRMAN. Do you have the resources to handle that?

Ms. CLAUSS. That is right.

The CHAIRMAN. I have good news for you.

During the hearing yesterday on our age discrimination bill, the chamber of commerce opposed lifting the 65 year cap. There are various bills, as you know. The proposed bill that I advanced would raise the age differential to 70, with a study to see the effects, and could be cut off altogether in a couple of years from now. But the chamber of commerce is opposed to that. Although they recognize that older people capable and desirous to continue working—should have job opportunities, they are opposed for sociological reasons. In addition they also oppose taking out the opportunity to have a mandatory retirement pension plan at 65.

However, they are sympathetic with workers who are 65 possessing that ability to work. They came out with some of the most glowing testimony that I have heard, and I thought you would be pleased to know that.

Secretary MARSHALL. I would like to get a copy of that, Mr. Chairman.

The CHAIRMAN. Yes, we just received a copy of that statement. I believe it was in the written statement, but at any rate it was there in the testimony.

I would think in parity of reasoning they might see, as we do, the benefits of the programs designed for youth unemployment. CETA is included in the Youth Employment Training Act this year, tailored precisely for the concern we have for unemployed young people. Meeting this problem is far more important than having a subminimum wage for young people which compounds our problems by displacing older workers.

So we will have to develop that when the chamber comes on later in these hearings.

Well, this is part of the discussion as I recall. To be specific, there is much more the Labor Department needs to do to help the elderly under the Comprehensive Employment and Training Act, and the senior community service employment program operated under title IX.

So given the strong endorsement to be even more effective with the CETA program is not illogical to suggest that kind of thinking could be applied to the others.

Secretary MARSHALL. Not at all. In fact, the logic in this business is perplexing in the inconsistencies in the logic.

One argument is to have a youth differential which will not displace any adult workers.

At the same time, it will cause young workers to be employed. That is very inconsistent reasoning.

The same logic that leads you to the conclusion that you will get many more young workers employed must also lead you to the conclusion that it will be at the expense of older workers, and the same kind of economic theory leads to the conclusion that the youth differential will cause young people to be employed, must also conclude that adults will not get those jobs unless you make the assumption that somehow our minimum wage would cause jobs to be created otherwise, would not exist, which it seems to me not a very logical assumption. And the same logic that says that you can take care of the older people directly, which we agree with if the private sector cannot provide jobs for older people, then it is entirely beneficial for public service jobs to be created. We think the same thing even applies more strongly with respect to more people, because the young people not only need jobs, but they need training and work experience, and we are more able in many cases to provide that than the employers in many of these low-wage jobs, and the reason for it is actually in many low-wage jobs, young people acquire bad work habits, and bad work habits are perpetuated, and a well-structured public program with public service employment, training, work experience, you are able to address yourself to all of those things.

In fact, one of the things that we are concerned is that in many of the kinds of jobs where young people are employed, you tend to get very inefficient labor market practices, because employers adapt to labor service that tends to exist in those markets, and therefore do not tend to manage the work force very effectively. There is no need to do it if you have a labor service you can adapt to things like high absenteeism, high turnover, because it is easy to get rid of people. That is not the best environment to give work experience and training.

The young people, if you want them to have some upward mobility in the labor market, it is much better to have a program that attempts to have good work habits and attempts to increase in a systematic way the productivity and skills of those young people than it would simply to say put them in that very efficient labor market, is going to train them for other jobs.

The CHAIRMAN. Well, if the concern for young people is sincere what you have said should be understood by those who are honestly concerned about the welfare of the young people.

There is not that bonus of learning and training in many of those jobs. Very good.

I wonder if we could deal with this tip credit question, which will be one of the areas of struggling even within this committee. As I interpret your statement, Secretary Marshall, tip credit is preliminary. There are studies underway, are there not, as to the impact on employment if there should be a gradual reduction of the tip credit.

Secretary MARSHALL. Yes; there would be.

The CHAIRMAN. And therefore, let us consider your statement temporary until studies are in. Can we do that?

Secretary MARSHALL. Yes.

The CHAIRMAN. It is my understanding that some studies have been conducted in this regard. There are research studies in California which evidently, removed tip credit under State law. Am I accurate in that statement?

Secretary MARSHALL. That is right, a number of States have either reduced or removed tip credit under their State's minimum wage laws.

The CHAIRMAN. Now, is the loss of employment and the increase in the wage bill just one argument?

Secretary MARSHALL. It is part of one argument. You can add another one, and that is uncertainty about the impact; that we have a lot of experience with the overall minimum wage and its impact. We have very limited good studies of the effect of removing the tip credit, which is a unique situation, and I think that we know far less about the effects of removing the tip credit than we do about general increases in the minimum wage. And as you know, even though studies tend to be inconclusive on the general removal of the minimum wage, partly because of the difficulties in holding everything else constant except the change in the minimum wage, we have no evidence that convinces us that the general minimum wage has had much impact on their prices or on employment, and in this case, the general change we recommend, that that is recommended, we think, would compensate much more than the public service programs that we already have underway.

We think that is a much better way to handle it. That is not to say that if you have a large and significant increase in the minimum wage it would not have some effect. We think minimum wage changes that have been made, have all been moderate enough in their impact on the economy to give the system time to adjust, but with the tip credit, it is just hard to say what the effects would be.

You can think through a number of different possible outcomes, and they all have different impacts, a good bit depends on how the employer reacts. If employers do away with tips and put workers on wages, and add the amount that would have been paid in tips to the service charge, add the service charge to the bill, then you can cut

through a path that would have no significant change. If they dramatically raise prices in order to compensate for that, then it might have some significant impact on both employment and the prices, restaurant prices, and the prices of tip services.

The CHAIRMAN. Would the California experience and others be worthwhile to examine?

Secretary MARSHALL. It would be worth examining. There have been studies that have examined our view on those studies, the ones that we have seen, they raise serious questions, but they are both about the severity of the problem.

But we also have serious questions about the validity, the technical validity of the studies that were made, so that we, even though the conclusions reached are that the impact is dramatic and serious in some cases, there are sampling problems with the studies, there are problems with bias because the studies are made by people who have a particular point of view, and were not objective and were not trying to see what the impact would be. They have their minds made up, and they had a study to prove what they wanted to prove, and that is not the best way to go about doing it. Objective studies with the impact for minimum wage change.

The CHAIRMAN. I have been advised the studies were industry sponsored?

Secretary MARSHALL. Yes; we have seen that study, and it was less than 1 percent sampling of the industry, and the answers were suggested by the questions. If you do not—if you let me ask a question, I can get whatever answer I want to get, and you have to pay a lot of attention to that process of doing research and asking questions.

The CHAIRMAN. Well, the lawyers could put in an objection, but I do not think your solicitor would put in an objection if you asked the question.

Secretary MARSHALL. A lot of this is chicken sickness research, and we try to avoid that. We get that name because of a large grant institution, they did a study of sick chickens, and what they found after an expenditure of a lot of money is that when chickens get sick, those that laid there for a few days have a whole lot better chance of surviving than those that die right now, and we think the studies made here ought not to be sick chicken studies.

The CHAIRMAN. Do you, at this point, have any studies with hard data in the area of tip credit that you rely on?

Secretary MARSHALL. We can give you for the record, Mr. Chairman, the information that we do have, and we have not analyzed this as completely as we could, but it is all before the facts. We have to say how many people would be affected, and what the likely outcome of that would be.

Why do I not ask Mr. Elisburg to summarize, if he can, what those findings showed.

Mr. ELISBURG. Senator, the data is somewhat gross in the problems dealing with tip employees. We furnished the committee, we know there are about 885,000 in the youth employees, we know that the elimination of phasing out will have a gross wage impact bill between $1 billion to $1.5 billion over the whole life increase of this tip credit. The problem that we have in dealing with the data is how that will impact on the particular employment and restaurants, hotel-restaurant industry in trying to fine tune.

There are some studies that indicate the restaurant commercial food services is doing quite well in that their overall tip credit was removed in California, the restaurant industry itself, in a gross fashion did well. That there was an increase in taxable sales, there was a general increase in employment, but what we do not know, Mr. Chairman, is how that—whether that really related it to increase in sales with respect to tip establishments. We just know the restaurant industry itself, and that could include, for instance, the fast food operations and places where there are no tipping problems. We do not know the real impact of the addition of the service charge versus not having a service charge, as the Secretary says.

So with respect to the Restaurant Association studies, the problems with those, the representation, that is the establishments that were used, the kinds of questions, the statistical data, does not necessarily relate to what the conclusions were that were reached, so in our judgment those particular studies are not really economically sound to show the point one way or the other, and we would not want to rely on those.

On the other hand, to do these kinds of studies does take some time, and the Department has not done a study of the restaurant industry since, in effect, 1970 or 1971. So we have not had anything that updates in the last 5 or 6 years.

The CHAIRMAN. Our approach is certainly the approach in this bill. My cosponsor, Senator Javits, did so with reservations on this one question. There is such a gradualism about this reduction over many years, in easily digestible changes that perhaps after the first reduction there would be an opportunity for a full year of definitive study, and there is not any that anybody knows about. You all agree on that. Would that make any sense?

Secretary MARSHALL. Well, it would make sense to study such an impact in the case where they had an uncertainty than in this case.

The CHAIRMAN. What I would like to do is reserve this period of production over a period of time down to zero, and within that period, perhaps provide for a definitive study of impact. This is the neutron bomb approach, where we authorize and reserve the right to change.

Of course, I am not familiar with how many States have reduced and taken off tip credits. But, California is obviously a major example by population, so perhaps there is something to start with right there.

Secretary Marshall, someone told me the other day that Leon Keyserling is the only economist that is listened to who we hear from here in Congress that supports the minimum wage. All other economists are publicly known, and I was told, oppose the minimum wage approach almost as a principle. Can you explain this to me?

Secretary MARSHALL. First, I can say that it is not true.

The CHAIRMAN. Let me say that the Brookings people have come out in opposition, have they not?

Secretary MARSHALL. I do not know. I would expect at Brookings you could find the same kind of conclusions on economists, that is, economists disagree on this question. I think you have to make a distinction between those economists who reason on theoretical principles entirely about the effects of the minimum wage. If you simply take the neoclassical arguments that are normally given about minimum wage, we have many, many economists in to develop, then there

is no question that from a microeconomic point of view, that increasing minimum wage will cause some reduction in unemployment.

But I think that the thing that is worth pointing out is, the world is not like that, and you have to be—it is much more complex than the neoclassical model would have us assume, and that you do not really hold everything else constant as you change, to get minimum wage and as a consequence of that, the effect that is predicted for that model is not necessarily the effect that you would get, that even in the model, and I might add, would that necessarily be the case. There are all kinds of circumstances in which the neoclassical model would predict an increase in unemployment as a result of raising the minimum wage.

One is where the employer has considerable clout in the market, that is to say, where you get a dominant employer who is dealing with employees who have limited power. They would have minimum wage markets. Then even that theoretical model predicts an increase in wages with no increase in employment.

The other problems with the model are that they do not take into consideration the macroeconomic effects of a microeconomic change, nor can they. They do not have the tools or enough power to predict those effects, and they can be very significant.

The second change that—the assumption that they make is that every employer is operating in the labor market as efficiently as they possibly can, which is at variance with the situation.

Another assumption they make is that the labor market stations themselves are unaffected by that change. That is to say that changing the minimum wage would not cause employers to change the labor market procedures that they normally use. We know from our own experience with these matters, that wherever you get a labor surplus, as we have had in many of these low-wage labor markets, there are tendencies for employers to develop labor market procedures that use labor very inefficiently.

If that is the case, and it is clear that changing that surplus, and changing that wage or rate, would cause a readjustment in those labor market institutions to cause labor to be used more efficiently than it would be, and therefore, productivity would increase, and if productivity increased, to offset the increase in the minimum wage, there need be no employment or price effect of that change.

Now, I think you would find that there would be some division among economists on this question, but the division is more likely to cause disciplines than whether you are an economist or not. Most economists in my branch of economics, in labor economics, who are specialists in labor markets, would not oppose increases in the minimum wage. The people who do oppose the increase in minimum wage are likely to be those who know the least about it, the operation of labor markets and therefore are restricted in their information to the models that they build in their heads about what the world is really like.

We feel that that is an inadequate model to make policy on the basis of, and therefore reject it. And we think that if you are going to make policy, you have got to be concerned not about some theoretical, abstract world, but the world that we live it. And I think that labor economists are more likely to be concerned about the world we live in than, say, economists who are more abstract in their approach to problems.

I must say that the professional, the economics profession itself, tends to be more dominated by the theoretical types than the labor economic type.

The CHAIRMAN. One of the arguments advanced is that there will be stimulus to greater efficiency if wages are increased from the present minimum wage, and in that drive for greater efficiency, we will lose a lot of jobs, because jobs that are manually done will go to the automatic possibilities through technology. The gas station is the classic example given, as well as fast food operations.

There is no doubt that there has been a big reduction.

I suggest in employment, in gasoline stations, because of for whatever reasons, there has been a shift from the manuals operated in service to a self-service automatic system.

Secretary MARSHALL. I suggest that has made more to do with increasing the price of gasoline than the labor of the people working in the gas station; the labor of the people working there is a small part of the total cost.

I would agree that raising the minimum wage would have some employment effects. The question is: What are the magnitude of those effects? Our attitude is that the amount we contemplate would have an effect at most of about 90,000 people, but we are creating four or five times that many jobs, because of the service required.

Any increase——

The CHAIRMAN. That is the figure you have not produced before.

Secretary MARSHALL. Yes; this is one of our—I believe we used it in our previous testimony about—and we have indicated both what we consider the price and employment effects to be, bearing in mind that any study in this area, any such estimate, is suspect, because of the ability to really tell what will happen as results of these changes, but our estimate does not cause us any alarm about the employment effects, and we are probably more concerned about the problem of unemployment than any other agency in the Government.

The CHAIRMAN. In what form is this? Do we have your estimate?

Secretary MARSHALL. We can make those available to you. We have fairly detailed statistics, as well as critiques of other estimates that have been made.

We would be happy to make all of that available to you.

The CHAIRMAN. Yes. Well, that would obviously be most useful, indispensable before we are through here.

Secretary MARSHALL. Let me emphasize, no economist seriously doubts the question of whether you have some employment and price effects of any change. We think that the really significant question is first, the magnitude; and second, what else you are going to do about it, and third, what are the benefits of that change, and do those benefits far outweigh the negative effects that you would get from this employment.

We think, of course, the benefits far outweigh the—any negative effects. But I think another thing that you have to consider is, many of the critiques of increasing minimum wage are considering it as of this point in time forward, but what they do not consider is, there has been no increase in minimum wage since 1974, that there has been considerable erosion of real wages.

The CHAIRMAN. That is true. There has not been any legislation since 1974.

The effects of the 1974 action in law are still in process; $2.30 became effective first in 1976, am I right?

Secretary MARSHALL. Yes.

The CHAIRMAN. So while we have not made legislative changes for 3 years, the effectiveness was a year and a half.

Secretary MARSHALL. If you look at the changes in the Consumer Price Index, throughout that time, when the wages would have to be higher than they are now.

There is now, if you look at the relationship between people who get the minimum wage, when it went into effect and now, it has declined from 55 percent of average hourly work earnings in manufacturing to 43 percent today, and that—you know, the equity question is, do you leave it at 43 percent? Is that equitable? Is that erosion equitable? If you worry about any increase that would cause disemployment, inflation, should be imposed.

What you really have to do is say, what are the aggregate benefits of the change, and what are the aggregate costs of that change, in terms of its impact on employment and wages.

As we mentioned, we cannot do this precisely.

I think what we have to do is do what lawyers do, to use rules of evidence, and insist that you make the strongest case that you can. The economists cannot do it with precision, but we ought to inquire as to the best evidence that we can, and when we accumulate the best evidence that we can, we concluded that the increase in the minimum wage and indexing it far outweigh any possible cost and defect of that deficiency to that increase.

The CHAIRMAN. We have dealt considerable length to the concern of those who worry about youth and unemployment of youth in terms of there being better ways to address that situation.

There is one element that we do not mention, and that is the certification procedure and how useful it is.

We have heard various reports that student certification is not used. Now, what is the situation?

Secretary MARSHALL. Let me let Mr. Elisburg respond to that.

Let me say that we believe that that sort of certification procedure is valuable, we can no doubt improve it, improve the use of it.

We think whether it is a bona fide case of a learner, and where you are talking about hard-time employment, you do not get the same problem of substitution that you would get if you made this minimal.

Mr. ELISBURG. We have, Mr. Chairman, a rather extensive use of the section 14 certification procedure. Of course there are three different places where it is used.

One is the student subminimum, 85 percent; the other is the learner, which is a more refined certification for industries other than retail and service and then the third is the handicapped, sheltered workshop, that kind of thing, which is used rather extensively, but does not really become controversial too often.

With respect to the full time student, 20 hours a week, and retail service, higher education, agriculture, there are approximately half a million at any given time, certificates out allowing this student employment. So it is used rather extensively.

We have a very high volume of requests throughout all of our regional offices for these kinds of part-time, 20 hour a week jobs. We do not have a breakdown——

The CHAIRMAN. When you say, 500,000 certificates out, what does that mean? Opportunities to us. But how many are picked up?

In other words, how many students are employed under the certification procedures right now?

Somewhere along the line, I read 22,000. Does that sound——

Mr. ELISBURG. I would think it is substantially higher, Mr. Chairman. I would try to furnish that information for the record. We do not keep that kind of data. Normally they have not kept in the past the kind of data, how many students are actually being employed through this process.

They have a certificate for a particular institution, we do not keep a running tab of how many individuals are being employed in that context. I believe we should, but we have not been doing that very accurately.

The CHAIRMAN. You say 500,000. The three categories are: students, learners, and handicapped?

Mr. ELISBURG. I have got it now, straightened it out.

There are—in 1976, we had 21,000 certificates to retail and service establishment, agricultural institutions, and institutions of higher learning. The total number of opportunities that would be available with respect to those numbers of certificates are about half a million jobs. But we do not know exactly how many are filled, that is, the authorities within those certificates that could fill the half a million jobs, but we do not keep a tab of how many are actually filled. That does not include the learners who are not used very much, and that does not include the handicapped.

The CHAIRMAN. I wonder why the learners' opportunities are not used more? Is that an industrial certification?

Mr. ELISBURG. Yes, sir.

The CHAIRMAN. And they do not use it?

Mr. ELISBURG. Well, it is a limited period. And it may well be that there has been additional kinds of training opportunities, other kinds of training programs, apprenticeship programs, other ways that young people get into these kinds of industrial situations.

When that section went into the law many years ago, we did not really have the other alternative kinds of training programs.

Secretary MARSHALL. There is another consideration, Mr. Chairman, that is under the friendship program, where for prevailing wage purposes, the Davis-Bacon purposes, apprentices can be paid less than the journeyman rates. However, that apprentice rate is almost invariably above the minimum wage, so that you would not have to ask for any exemption from the minimum wage. And the formal learning situations for the skilled trades are in apprenticeship, and not in other areas, other areas are more likely to be on the job training, simply picking it up, and that in many of these learning situations, the minimum wage is no barrier, because typically in apprenticeship, the apprentice starts at half the journeyman rate, and there are very few journeyman rates that are less than half the minimum wage, or are no more than double the minimum wage.

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So I suspect that that information, wherever you get a formal training procedure, because those labor markets tend to be more structured, and lead to more highly skilled jobs, the minimum wage is no barrier. That fits what I said earlier about the nature of many of these low-wage markets.

The CHAIRMAN. I would think that subminimum certificate would be a big seller, that in many college communities.

I would think the MacDonald's chain would be right there grabbing up every opportunity they could, would they not?

Mr. ELISBURG. I cannot speak for whether MacDonald's places use it for the college campuses, those kinds of schools. And there are about 25 percent of the certificates are public institutions, one kind or another. I think that is schools hiring students, as opposed to the fast food kinds of operations surrounding the campus.

The CHAIRMAN. Would not MacDonald's qualify?

Mr. ELISBURG. They could.

The CHAIRMAN. Anyway, in an effort to check out how many of these fast foods operations in college communities do use the youth certificates could we get a sample or two, and see whether or not they are using it? You know what happens when we deliberate minimum wage. Almost a million-dollar campaign against it is launched by these fast food campaigns with Big Mac No. 1. That one outfit held up the minimum wage the whole year. I don't think it did not improve the product, I get a little emotional about this. It was 1972, as I recall, an election year, remember?

Secretary MARSHALL. We can find that out, Mr. Chairman. I suspect that the lack of use here indicates the minimum wage is really not much of a barrier to the employment of young people. My experience on the college campus, it was all wage before the minimum wage that you could get anybody for higher, and I would be surprised if the minimum wage is much of a barrier to the employment of young people in college towns.

The CHAIRMAN. Very good. That leads me to something that I was reviewing last night. The projection is that increasing the minimum wage will not be reaching low-income families to the total extent that will be useful to members of families where the family income is well above that poverty level.

I gather this addresses itself to young people, even though families of advantage will be beneficiaries here, rather than pinpointing everyone who, in the family sense, needs that increased income.

Secretary MARSHALL. Yes, I think that would probably be the case where you have some differential for young people. I think clearly young people, as well as poor young people, that would benefit from that, and it would have less impact on the working poor, because you get substitution of young people, then adults who are the working poor.

The CHAIRMAN. They say this is not a very good way for the redistribution of income to reach the poor.

Secretary MARSHALL. The youth differential?

The CHAIRMAN. No; the minimum wage.

Secretary MARSHALL. I think that it would help the working poor if you did not have a youth differential. If you did have a youth differential, it would hurt the working poor, because what would happen

is that the young people, if you encourage the hiring, say, of young people from more affluent families for part-time work, they would displace women, minorities, adults who are working in this labor market.

This is one of the characteristics of our labor market that people do not recognize. We have what we call a secondary labor market. People who are the main participants in that labor market tend to be young people, women and minorities, much more heavily than is the case of other labor markets, and that means that young people, minorities, and women tend to be substitutes in that labor market, and if you had youth differential, then what you would do is to cause the more affluent young people who are in that labor market from more affluent families, to take jobs away from female heads of households and minorities who are in that labor market, and the consequence of that would be to redistribute income toward the wealthier families and away from the low-income families.

The CHAIRMAN. The ripple effect, we will hear ripple, ripple, ripple, from now until the third reading.

Can we talk about ripple effect and how this is going to create a flood if we put this minimum wage bill through? The ripples will rise to a flood of disaster and inflationary impact.

Secretary MARSHALL. Much of what I previously said about I expect the impact of the minimum wage to be, deals with that so-called ripple effect, and that it all depends on what assumptions you make about what happens to employment and prices as a result of a change in the minimum wage.

You can show that if you get an increase in minimum wage, and it is all passed through in the form of higher prices, depending on the relationship between quantity sold in prices in wide range markets, that this will get multiplied, and you will have a ripple effect throughout the system.

The evidence seems to indicate that there is not very much ripple effect, and probably because of those things that I mentioned. That is to say that you do not pass the wage increase through 100 percent in the form of higher prices, because there are possibilities where you have got monopoly power—for profits to be reduced, because they have already had profits that are higher than the competitive situation would justify.

Second is, you get increases in productivity in those markets, which make it possible for those employers to absorb those increases without passing it along, and the effect you are likely to get in the short run is that you get some immediate impression of the wage structure.

That is to say, lower wage people will rise relatively to others, but evidence also indicates that lower wage price people have declined relative to others, and it is appropriate that you should get that compression—55 to 43 percent, what is the justice in leaving it 43 percent and saying that you should not have some compression? What the natural history of this process indicates is, first, you will get that compression, but even when we adjust the minimum wage upward, that the other workers in the system will pull away, and that that will decline as a part of the overall average hourly earnings of other people. They will for several reasons.

One is that we are talking about a substantial delay here even under the proposal that we are making in the adjustment of the minimum

wages relative to other people. You see, the calculation is made on the previous year, and then we do not even put to effect for 6 months, which means you have an 18-month lag there.

In addition to that, that ratio, say, when it even gets to 53 percent, will only be effective 1 day, and that is January 1. Every other day, all those wages are going to be pulling away, and those who are paying the minimum wage will be constant for the rest of that year.

Then you go through the same lagging process, so that it would be very difficult to argue that the minimum wage, the magnitude that we are proposing here, will have any substantial ripple effect.

What it will do in terms of equity is make it possible to have an adjustment that ought to take place. The relationship of wages of people who are governed by the minimum, and the wages of other people in the system.

The CHAIRMAN. Senator Javits?

Senator JAVITS. I must apologize to the Secretary, but we had an emergency meeting in the Foreign Relations Committee on a rather immediate matter. I am very interested in the indexing proposition, and why you have chosen the criterion on the average wage rate in manufacturing, and why you have not assimilated other criteria, for example social security, cost-of-living index, or a study of collective bargaining agreements which have indexing, and what standards, what criteria, they used. In other words, is this an eclectic choice, or what is the reason for it?

Secretary MARSHALL. Well, we think that the main reason is that it would be inappropriate to use, say, cost of living as an adjustment, partly because cost of living is rarely a determining factor in wage determination. It is one of a number of factors that attempts to be used in wage adjustment. Others are the employer's ability to pay.

This is what has happened to productivity and growth in the industry; comparisons, standards of equity between one industry and another, or between different occupational levels.

The cost of living, therefore, is one of four or five traditional factors that are used in wage determination. If you just use that, then you would not necessarily keep people who are paid the minimum wage relative to other people, and therefore you would not be using labor market standards.

You would be using a standard that was designed for price changes, not necessarily for those designed for wage changes.

Where you find the cost-of-living adjustment in collective bargaining contracts is an automatic factor, but it is no substitute for all these other factors that they aid use. Now, the reason that we use the straight time hourly earnings in manufacturing is that it is a better statistical measure, and it is uninfluenced by a lot of extraneous factors, and it gets less feedback from the minimum wage process itself than would be the case of other measures that you use.

For example, it would be inappropriate to use overtime, to include overtime in the calculations for the indexing, because overtime varies widely in both the amounts that get paid for, and the use of it.

It would be inappropriate to include fringe benefits, because the assumption you have to make is that workers who are paid the minimum will also have fringe benefits, and that the minimum wage will not be the only compensation that they get, and that is an important thing to keep in mind.

So that from all of those points of view, we think that it makes more sense to relate changes in the minimum wage to other wages than it does to any of these other things.

We also know that the existing index is reliable, and is widely used, so that we think that the index we have chosen is good in terms of labor market analysis, and it is good in terms of statistical validity.

Senator JAVITS. The difficulty, as I see it, Mr. Secretary, is that the preponderant employment in the United States is in service and not in manufacturing, and since the nonmanufacturing sector employs the preponderant number of workers, would not they complain that choosing a manufacturing rate is inappropriate? Has any effort been made to study the relationship between the nonfarm average wage rate or the service wage rate, and the manufacturing average wage rate?

Secretary MARSHALL. Well, this relates to the point I made earlier, that is—the first place about services, it is a very amorphous category. Much more homogenous than the manufacturing category.

From a statistical point of view, you have a problem of measurement. What services are included?

Senator JAVITS. I was talking about the total amount of nonfarm employment.

Secretary MARSHALL. And also, of course, if you do include the services, you do get a problem that I know you have concerns about, feedback. Since the low income workers are concentrated in certain kinds of service occupations, then it meant that the wage itself would increase the index. So raising it, you would get an excalating problem that you raise the index, and that would have—raise the minimum wage, and you would have a much larger impact on the noncausal index, than it would have on the manufacturing index, which does not include them, and therefore does not include the heavy concentration of workers who get the minimum wage. And therefore you get an index where—that your action less influences your measurements, and from an indexing point of view, that is a much better way to do it, we think.

Senator JAVITS. I think it would be interesting to us if you picked a reasonable, comparable period, and gave us some figures on the historical relationship.

Secretary MARSHALL. We have done that, and we will supply those to you.

Senator JAVITS. Without objection, that will be included in the record.

Now, the tip credit has worried me. I have not seen any data about the effect of tip credit on incomes below poverty level of tipped employees. I question whether or not the removal of these tip credits, requiring payment of ultimately the full minimum wage to the tipped employee, would have a disproportionate benefit to those employees as contrasted with others receiving the minimum wage. What studies or factual background can you give us for that?

Secretary MARSHALL. We, as we mentioned earlier, as I mentioned in my testimony, we are opposed to any change in the tip credit provision now.

One of the main reasons for our opposition is the uncertainty about the effects. There have been studies made. They are inconclusive, you can pick your studies and prove anything in this area that you want proved.

None of the procedures, none of the studies that we have seen, are defensible on methodological grounds, including our own. The study that we had to make, and the approach that we had to take of it, is too gross to give you precise answers to this question. We can show from a gross point of view that when tip credit has been changed in States like California, particularly California, that from an aggregate point of view, it has no apparent adverse effects.

On the other hand, the industry study in California shows significant adverse effects. Now, theirs, we think, is too biased a methodology, and based on far too small a sample and ours is too gross because there might have been considerable redistribution within the industry that the gross measurements do not pick up.

In other words, there might have been a shift in business from certain kinds of restaurants to others, and a gross measure would fail to pick that up.

Now, one of the things that is important, of course, under the proposal that we have here, no change in the tip credit, each employee would get at least the minimum wage, and we think that is an important consideration.

Senator JAVITS. Well, when I introduced the bill with Senator Williams, I reserved my position on that, and I still do, and I wanted to know what criteria induced the Department to take the position it has, and you have explained it.

Are there any backup facts or figures that could be put into the record on that subject?

Secretary MARSHALL. Yes, sir, we do have. And we will make those available for the record.

Senator JAVITS. Would you do that? Without objection.

Secretary MARSHALL. And as I pointed out, these facts have to rest on assumptions that you make about the impact, about the reaction that employers are likely to make in changes of the tip credits. Whether or not for example, simply put, the tip in the bill as a service charge, as is done in some European countries, or whether you get a continuation of minimum wage, and the tips which would mean a significant increase in wages.

Senator JAVITS. Right.

Now, one other thing. Some years ago, and this deals also with the Fair Labor Standards Act—but it does not deal with the minimum wage directly—some years ago, we had a good deal of argument back and forth about the need for children under 12 in agriculture, particularly as it affected potato harvesting in Maine and berry picking in Oregon, and other States of the Pacific Northwest. How was that worked out? Can you give us any word on that? Could you give us a written report on the subject?

Secretary MARSHALL. We do have written information on that, and we will make it available.

Senator JAVITS. The reason I asked you that question is because I wondered what was the attitude of the Department about all questions of exemption which are in the Fair Labor Standards Act, and while you have not raised them, I have little doubt that some of our Mem-

bers will, when we get to dealing with the minimum wage; it will be considered open season.

Could you give us the point of view of the Department?

Secretary MARSHALL. My point of view was that we did not want—we thought it was more important to concentrate on the basic features which were very important; namely, the rate and the indexing and to not try to cloud the issue with a lot of amendments of coverage and other aspects of the law.

We would not, of course, have taken a general view, and they would have to look at the particular exemption under consideration. We would be happy to do that. If you would like for us to give you our estimate of the effects of changing a particular exemption or attitude, we would be happy to do that.

Senator JAVITS. Of course, we do not know yet what we are going to be facing.

Secretary MARSHALL. Our basic position was that we would like to leave the act pretty much as it is with respect to those conditions.

Senator JAVITS. I think we need an affirmative declaration by you on that subject.

In other words, is the administration opposed to all changes other than the rate and the indexing? What other position it does take on anything else? And also, to give us your comments on what changes were made in the House bill so that we might have a definite point of departure, because I do think we are going to be faced with that situation.

Secretary MARSHALL. All right, sir; let me prepare a written statement on all of those things.

Senator JAVITS. In other words, what you are for and what you are opposed to, using two points of reference: one, the position of the Department that you have just expressed, and two, the House bill, which we are going to have to deal with.

Secretary MARSHALL. Yes, sir.

Senator JAVITS. Thank you very much, Mr. Secretary, and Mr. Chairman.

The CHAIRMAN. That was the one remaining item I wanted to mention; the House bill and the amendments that came out of the committee. That bill is up over there, possibly today. Obviously, we need your opinion regarding the contents of that bill and the proposed amendments.

Secretary MARSHALL. We will study those and give it to you immediately.

The CHAIRMAN. I do have here a list of maximum tip credits in several States, and I think I will include this in the record.

[The information referred to follows:]

Maximum tip credit in several States

	Tip credit		Tip credit
Alaska	----	New Mexico	(2)
California	----	New York	.85
Connecticut	$0.60	North Dakota	----
Hawaii	.20	Oregon	----
Idaho	----	Rhode Island	.81
Indiana	.50	South Dakota	.50
Kansas	.64	Utah	.46
Massachusetts	.84	Vermont	1.00
Michigan	[1].575	Washington	----
Minnesota	.525	West Virginia	.44
Montana	----	Wisconsin	.55
Nebraska	.70	Wyoming	.50
Nevada	----	Guam	----
New Jersey	[1]1.05	Puerto Rico	(2)

[1] Includes allowances for food and lodging.
[2] Provides for a lower wage for tipped employees having the affect of a tip credit of $0.80 in New Mexico and between $0.20 and $0.30 in Puerto Rico.

Secretary MARSHALL. We have some information on that, too, and whatever information we have, the effect of those, we will be happy to make available.

The CHAIRMAN. Great. So there is in law a mandate for the Department to give us a report on the status of the exemption and the study that is called for. What is the status of that?

Mr. ELISBURG. Senator, when we came into office, we found that many of the exemption studies that were to be completed by January 1976, had not been. We do have a plan in operation right now within the Department to have all of the exemption studies completed either by the end of this year or by 1978. Some of them have just started now, and they are going to take through the end of next year, at which point we think that all of the requirements that Congress put on the Department in 1974 will have been completed.

The CHAIRMAN. And your date, your target date on that is——

Mr. ELISBURG. By the end of 1978.

The CHAIRMAN. I imagine that will be part of that factor that you just started, what you will be doing in the next year and a half will be part of your answer to the House amendments, I would imagine.

Mr. ELISBURG. Some will be, Mr. Chairman. As I said, we are preparing on the information of certain exemption studies.

[The information supplied for the record follows:]

U. S. DEPARTMENT OF LABOR

OFFICE OF THE SECRETARY

WASHINGTON

AUG 16 1977

Honorable Jacob K. Javits
United States Senate
Washington, D.C. 20510

Dear Senator Javits:

This is in reply to your request, when I testified on minimum wage legislation before the Senate Subcommittee on Labor on July 28, for the Administration's position on (1) the provisions of the minimum wage bill as reported by the House Education and Labor Committee and (2) the various exemptions under the Fair Labor Standards Act.

I strongly support the sections of H.R. 3744 as reported out by the House Education and Labor Committee that would provide for the increase in the minimum wage to $2.65 an hour and the indexing of the minimum rate, beginning in January 1979, to equal 52 percent of the manufacturing average earnings and then increasing to 55 percent of that average in January 1980 and annually thereafter.

Today, the current $2.30 minimum wage provides a full-time minimum wage worker less than $5,000 per year, an inadequate amount compared with the cost of living for most American workers. An increase in this minimum rate to $2.65 an hour will help alleviate this inequity.

Of greatest importance in the bill is the provision for indexing the minimum rate on an annual basis. The annual indexing formula will eliminate the inflationary impact of long delays between minimum wage increases and the continued erosion of inflation on the minimum wage worker's pay.

I vigorously oppose a subminimum wage for youth as a method to deal with youth unemployment. I favor addressing the problem of youth unemployment through the job creation mechanisms of the youth employment bill. A youth differential will not create more jobs; it will result in substitution of younger workers for older workers, putting breadwinners out of jobs.

No Labor Department study--under any Administration--has found that an increase in the minimum has an adverse effect on employment, nor has any Labor Department study ever recommended any subminimum for youth.

The House bill would phase down the tip credit for tipped employees. We oppose this provision. There is a lack of information about whether this change would actually result in an increase in combined wage and tip earnings. A reduction in percentage terms of the tip credit may induce some employers to reduce tips with a service charge. This could lower the combined wages and tips of these employees. On the other hand, where the employer does not impose a service charge, he may face substantial additional costs as to his tipped employees.

With respect to the Administration's position on exemptions under the Fair Labor Standards Act, the 1974 amendments required the Secretary of Labor to conduct studies on the need for all exemptions in the Act. The Department submitted a report to the Congress in March 1976 pertaining to the employment of workers under special certificates issued under section 14 of the Act. The report recommended the elimination of the exemption for learners and messengers and the retention of the exemption for student-learners, student workers, apprentices, full-time students, handicapped and patient workers. The reports on the results of the other studies being undertaken will be forwarded to the Congress by the end of 1978. Quite frankly, pending the completion of this research, we do not have a basis for taking a position on the various exemptions under the Act or on the specific provisions in the House bill to revise or repeal the exemptions.

The Office of Management and Budget advises that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

Signed Ray Marshall

Secretary of Labor

Elimination of the Tip Credit - California Survey

Background

The FLSA provides that tips received by tipped employees may be counted as wages for purposes of the Act in an amount up to 50 percent of the required minimum wage. At the current $2.30 minimum the employer of an employee who receives $1.15 or more an hour in tips is required to pay the employee at least $1.15 an hour in addition to the tips. An employee receiving 50 cents an hour in tips must be paid at least $1.80 an hour by the employer (the combination of tips plus direct salary must equal at least $2.30).

Discussions of the appropriateness of the tip credit focus on the nature of tips. Employees argue that tips are direct payment from customers for services that they provide and should therefore not be used to offset the employer's responsibility to pay the minimum wage. Employers argue that the current tip credit already guarantees employees at least the minimum wage and that many earn much more than the legislated minimum. In addition, they contend that reduction or elimination of tip credit would result in major cost and price increases for the industries using tipped employees and is likely to cause many establishments to eliminate service altogether or convert to a system of service charges.

Some states have already acted in this area to provide more restriction on the use of tips than under Federal law. Eleven jurisdictions prohibit tips from being counted as part of wages in meeting their State minimum wage standards. These include: Alaska, California, Guam, Idaho, Montana, Nevada, New Mexico, North Dakota, Oregon, Puerto Rico and Washington. In addition, fourteen other jurisdictions restrict their allowed tip credit to, in effect, require minimum cash wages higher than required under the FLSA.

California Survey - During March 1977, a private firm of certified public accountants, under contract with the National Restaurant Association, completed a survey of the impact of the loss of the tip credit and simultaneous increase in the minimum wage in the state of California. In January 1976, California repealed the $0.25 tip credit provision in the state minimum wage law and increased the minimum wage to $2.50 per hour in October 1976.

The March 1977 report was based on a sample of 470 independent eating places and 15 chain operators representing 872 units. The impact of the change in the state minimum wage law was evaluated in terms of employment, inflation (menu prices), patronage, and earnings. The conclusion reached in the study was that there was a serious negative impact on the commercial food service industry in California,

due to the repeal of the tip credit and in the increases in the minimum wage. (For a chronology of these increases see Attachment 1.)

Employment - Two-thirds of the restaurants in the survey reported reduced staff requirements attributable to changes in the minimum wage. Restaurants reportedly cut an average of approximately 50 hours per week from their payroll schedules. Reduction took the form of elimination of positions and a drop in employee hours worked. Fast food establishments with fewer tipped employees reported less staff cutting than other restaurants.

Inflation - Over 80 percent of the restaurants reported increasing prices since July 1, 1976, primarily due to the increase in the minimum wage and tip credit repeal. The median price increase for independent operators was 8.7 percent; chain operators raised their prices 4.7 percent.

Patronage - Some 29 percent of the respondents in the sample reported a decline in customer patronage in the six months preceding the survey.

Earnings - In general, the survey reported that restaurants have attempted to increase prices in order to cover higher labor costs or have reduced employee work schedules and fringe benefits. Despite these actions,

the survey found that 28 percent of independent operators and 43 percent of the units of chain operators expect a decline in earnings.

Evaluation

Sample Size and Representativeness - The study was based on a sample of 1,342 restaurants drawn from a total universe of over 31,000 eating and drinking places in California (1972 Census of Retail Trade). The sample size of about 4 percent is relatively small. There is also a problem with the representativeness of the sample. The universe for independent restaurants was developed from a list of California subscribers to HOSPITALITY magazine, a nationwide publication. While this source may have provided a representative list of independent operators, there is no way to verify this. Similarly, there is no indication in the survey of any controls or selection criteria adopted to insure the representativeness of the fifteen chain operators.

In sum, the problems related to the sample compromise to some extent the validity and reliability of the survey findings.

Survey Methodology - The survey questionnaire directed multi-unit independent firms to complete the questionnaire for one unit of their choice. This procedure is a departure from rigorous statistical standards of sample selection. As a result, survey findings may be biased. There is no way to

verify the accuracy of the data and the absence of a bias.

Survey Findings - Problems with sample selection and methodology may have biased the survey results. Evidence that the survey findings are not representative for the restaurant industry in California is contained in an Appendix to the survey report (see Attachment 2). While the survey respondees reported reduced staff requirements, data in the Appendix indicate that food service employment in California increased from 392,235 in 1975 to 416,978 in 1976. 1/

The survey found that 29 percent of respondees in the sample reported a decline in customer patronage in the six months preceding the survey; 28 percent of independent operators and 43 percent of the units in chain stores expected a decline in earnings

Yet, taxable sales data presented in the survey Appendix document a rise of almost $800 million in taxable sales in the commercial food service industry in California between 1975 and 1976. The NRA Study ignored the fact that about 70 percent of restaurant units surveyed experienced an increase or no change in patronage following the increased minimum wage and tip credit repeal.

1/ The 416,978 employment figure in 1976 was a projected estimate made by the survey contractors. This estimate for the year appears too low. Employment in eating and drinking places in California rose above 416,978 by May 1976; by September 1976 total employment had reached 437,000.

The survey reported that over 80 percent of the restaurants in the sample increased prices since July 1, 1976, primarily due to the increase in the minimum wage and tip credit repeal. The median price rise was 8.7 percent for independent operators and 4.7 percent for chain operators.

However, wholesale prices of consumer foods were rising sharply at the time the survey questionnaire was completed by restaurant operators in February 1977. Nationwide, wholesale consumer food prices rose at a compound annual rate of over 20 percent for the three month period ending February 1977. The emerging importance of rising food costs was reflected in the survey findings. Though 69 percent of restaurant operators identified labor cost increases as the most important factor for price rises, over 21 percent identified rising food costs as the major factor contributing to price increase (survey Table 1-C). Thus, the 8.7 percent median price rise among independents represented the combined impact of rising labor costs and rising food prices in the industry. Inexplicably, not one of the chain store units which answered this question (over 700), listed increased food costs as the most important factor behind price increases.

In the survey Appendix, data on improved worker productivity were presented. Sales per employee (deflated by increases in the CPI) have increased from $14,011 in 1974 to $15,925 in 1976. Such productivity gains should have permitted California employers to offset some labor cost increases with improved efficiency and labor productivity. But over 80 percent of the independent operators and chain store units surveyed had raised their prices since July 1, 1976. This very high proportion with price increases indicates that as a group, they have not experienced increased productivity and the sample is not representative of the restaurant industry in California. (In theory, productivity gains should offset cost increases, permitting constant prices and an improved competitive position in the industry.)

Finally the survey of chain units could have included units located outside of California in order to provide a survey control group. Failure to do so points out another unscientific aspect of the research design.

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Economic Considerations - Eating and Drinking Places

a. Employment and growth - The overwhelming majority of tipped employees work in hotels, motels and eating and drinking places. It is estimated that there are about 885,000 tipped employees in such establishments, of which about 85 percent are employed in eating and drinking places.

Nationwide, over the past decade, eating and drinking places have experienced steady growth. Gross sales increased from $23.8 billion in 1967 to $52.7 billion in 1976. The Department of Commerce projects that eating and drinking places will lead all other segments of the retail trade industry in future growth, at about 10 percent per year (Attachment 3, table 1).

Employment in eating and drinking places increased from 2.2 million in 1967 to 3.4 million in 1976. Again, recent employment gains at about 4 percent per year have led all segments of the retail trade industry (Attachment 3, table 2).

The Department of Commerce, U.S. Industrial Outlook 1977, predicts continued growth for eating and drinking places based largely on strong consumer demand:

> Eating and drinking places experienced strong sales gains in 1976. Eating out remained popular and many new units came on stream. Most large fast food vendors are publically-owned corporations, and their sales figures are published. They indicate that sales of this group are growing faster than the industry and its share of total market is increasing.

> The future for eating and drinking places appears particularly bright. Increases in consumer disposable income and a willingness to spend on meals, together with the size of the industry, its diversity and adaptability, and the imagination of its leaders are all good portents.

b. Costs - Food costs and labor costs are the two largest components of the operating expenditures of eating and drinking places, usually accounting for over 70 percent of total costs. (Additional costs include maintenance, insurance, accounting and legal services, advertising, promotion, etc.) Within the food/labor share of costs, food predominates, usually accounting for 50-70 percent of the combined food/labor bill. The prices charged by eating places appear particularly sensitive to changes in the price of food.

For example, during the first quarter of 1977, wholesale consumer food prices increased at a 12.7 percent annual rate. During the same period, the price of restaurant meals and snacks increased at a 10.9 percent annual rate, largely reflecting the rise in food costs.

The rise in wholesale food prices also affected retail prices of food consumed at home. During the first quarter of 1977, retail prices of food consumed at home increased at an annual rate of 15.8 percent. Relative to home food prices, restaurant prices have increased at a slower rate. Based upon these economic changes, the consumer trend towards eating out more is expected to continue strong.

ATTACHMENT 1

CHRONOLOGY OF CHANGES IN CALIFORNIA MINIMUM WAGE LAWS

10/18/76	Minimum wage to $2.50 per hour. Consent of employee required for meal credit deduction. Overtime to be paid after 8 hours/day or 40 hours/week. Prior to this date, California minimum wage for employers not covered by FLSA $2.00. No consent required on meal credit. California overtime regulations exempted the restaurant industry.
1/1/76	Tip credit of 25¢/hour repealed. Employers covered by FLSA minimum wage up to $2.20.
3/4/74	California minimum wage up to $2.00 from $1.65. Previous tip credit of 20¢/hour raised to 25¢/hour.

ATTACHMENT 2

PROFILE OF THE COMMERCIAL FOOD SERVICE INDUSTRY IN CALIFORNIA

	1976*	1975	1974
Number of establishments (1)	44,459	43,165	42,245
Taxable sales (1)	$6,888,343,000	$6,098,509,000	$5,447,680,000
Per capita taxable sales (1)	$321.74	$288.85	$260.24
Food service employment (2)	416,978	392,235	369,377
Food service wages (2)	$1,924,612,746	$1,726,954,043	$1,550,933,115
Productivity	$15,925	$15,004	$14,011

Notes:

(1) State Board of Equalization, State of California - Taxable Sales in California

(2) California Employment Development Department - California Employment and Payrolls

*Harris, Kerr, Forster & Company estimate for year 1976 based on first three quarters, 1976

Number of establishments = Eating and drinking places with sales tax permits

Productivity = Sales per employee deflated by Consumer Price Index for Food Away From Home

ATTACHMENT 3

Table 1

Retail Trade: Trends and Projections 1967-1977

[sales in millions of current dollars]

SIC Code		1967	1972	1973	1974	1975	1976[1]	Percent change 1975-76	1977[2]	Percent change 1976-77
52-59	Total Retail Trade	313,809	448,779	503,317	537,581	584,423	642,865	10	703,900	9
5311	Department Stores	32,314	46,302	52,292	55,875	60,719	66,200	9	72,600	10
5331	Variety Stores	5,407	7,756	8,212	8,715	9,120	9,700	6	10,300	6
5411	Grocery Stores	218,130	88,340	98,392	111,247	122,666	130,000	6	139,100	7
5611	Men's and Boys' Apparel Stores	3,385	5,198	5,600	5,665	6,085	6,300	4	6,678	6
5621-31	Women's Apparel, Accessory Stores	6,290	8,386	9,119	9,583	10,296	11,200	7	11,872	6
5712	Furniture Stores	6,564	9,721	10,439	10,962	10,087	12,100	9	12,900	7
5722	Household Appliances	3,014	4,534	5,124	5,222	5,083	5,540	9	5,928	7
5812-13	Eating and Drinking Places	23,843	33,891	37,925	41,821	47,514	52,700	11	58,000	10
5912	Drug Stores	10,930	14,521	15,474	16,745	18,014	19,900	10	21,342	8

[1] Estimated by Bureau of Domestic Commerce.
[2] Establishments with payroll.

Table 2

Retail Trade Employment 1967-1976

[in thousands]

	1967	1969	1970	1971	1972	1973	1974	1975	1976[1]	Percent change 1975-76
Total retail trade	10,081	10,907	11,102	11,233	11,705	12,209	12,751	12,771	12,934	+0.5
Department stores	1,324	1,483	1,511	1,545	1,594	1,676	1,703	1,658	1,653	—
Variety stores	313	318	312	319	333	339	324	309	294	-5.0
Food stores	1,495	1,517	1,561	1,585	1,651	1,709	1,732	1,774	1,791	+1.0
Men'and boys' apparel stores	114	126	131	131	132	133	135	137.4	140.2	+2
Women's ready to wear stores	252	270	269	276	287	296	289	292.1	295.0	+1
Furniture stores	271	288	283	289	297	308	328	313	313	—
Household appliances	84	88	88	89	92	95	101	101	101	—
Eating and drinking places	2,191	2,420	2,488	2,569	2,684	2,818	3,145	3,298	3,430	+4.0
Drug stores	425	446	453	456	470	481	467	470	475	+1.0

[1] Estimated by Bureau of Domestic Commerce.

Employment Effects

Considerable controversy surrounds the question of employment effects of minimum wage legislation. Labor Department studies conducted through the years, beginning with 1950, have shown little, if any, disemployment effects from legislated increases.

Today, there is no consensus regarding the size of any disemployment impact related to minimum wage increases. In an expanding economy, moreover, job creation will outpace job losses. In fact, aggregate data indicate that employment has generally increased over periods during which the minimum wage has increased:

Year	Basic minimum wage	Total nonagricultural employment (thousands)
1949	$0.40	43,778
1950	.75	45,222
1956	.75	52,408
1957	1.00	52,894
1960	1.00	52,234
1961	1.15	54,042
1962	1.15	55,596
1963	1.25	56,702
1964	1.25	58,331
1966	1.25	63,955
1967	1.40	65,857
1968	1.60	67,951
1969	1.60	70,442

Econometric studies have shown mixed results. Recently, attention has focused on a 1976 study by Edward Gramlich, University of Michigan. Gramlich's study relates changes in the minimum wage to changes in employment for youth and adults. He finds no disemployment among adults but a slight disemployment effect among youth.

Utilizing Gramlich's study, potential disemployment effect of a $2.65 an hour minimum wage can be estimated at 90,000 jobs. This "disemployment effect" does not imply that 90,000 people will lose their jobs as a result of a higher minimum wage. Rather, over a period of time there would be 90,000 fewer people employed in the private economy with a higher minimum wage standard according to the Gramlich estimates.

It is recognized that low-wage firms are faced with an increase in labor costs when the minimum is increased. The necessary reappraisal of business practices often results in management improvements and efficiency gains which compensate for the legislated wage increases.

Finally, since minimum wage increases benefit low-wage workers with a high propensity to consume, there is a stimulus to the economy. Product demand increases and this in turn may lead to some increased employment.

Employment of Full-Time Students at 85 percent of the Minimum As Presently Authorized Under the Fair Labor Standards Act

- - The 1974 Amendments to the FLSA liberalized authority available to all retail establishments to pay 85 percent of minimum wage to full-time students. Similar authority was extended to all colleges and universities.

- - Any retail or agricultural employer may submit a simple application for authority to employ not more than four full-time students and such authority is effective on mailing the application by the employer.

- - Any retail establishment or agricultural employer may obtain authority to employ full-time students for up to 10 percent of the total monthly hours of all employees.

- - A retail establishment or agricultural employer may obtain authority in excess of 10 percent by presenting evidence of a past practice of utilizing more full-time student hours.

- - Private colleges and universities may obtain authority to employ all of their full-time students at 85% of the minimum. The authority is effective with the mailing of the application.

- - In 1974 there were 22 million full-time students age 14 to 24 who were eligible for employment at 85 percent of the minimum.

- - There are 400,000 retail establishments covered under the FLSA. In a recent month there were 1.3 billion hours worked in these establishments. Under the current provisions of section 14(b), these establishments could have employed 1,500,000 full-time students at 85 percent of the minimum for up to 20 hours a week.

- - During the year ending June 1977, 12,200 retail establishments which renewed authority reported employing full-time students at less than the minimum for 45 million hours under their previous authority.

- - During the year ending June 1977, 694 colleges and universities which renewed authority reported employing 212,000 students at less than the minimum.

- - Of the more than 20 million full-time students who are eligible for this program, it is estimated that only 250,000 to 300,000 are actually employed at less than the minimum.

Full-Time Student Certificates Issued by Industry
for Four Quarters Ending June 20, 1977

Industry	Number of Certificates*
Variety-Department Stores	3,900
Eating & Drinking Places	4,300
Food Stores	3,300
Apparel & Accessory Stores	3,100
Motion Picture Theaters	3,300
Institutions of Higher Education	900
Agriculture	100
Other	1,100
Total	20,000

*Figures estimated

SUMMARY OF SECTION 14 CERTIFICATION FOR THE YEAR ENDING JUNE 1977

	Certificates Issued	Workers Authorized
Total	42,296	574,628
Individual Worker Certificates	17,227	17,227
Handicapped Worker and Trainee	9,997	9,997
Apprentice	69	69
Student Learner	7,161	7,161
Establishment Certificates	25,069	557,401
Learner	76	1,446
Full-time Student	19,717	426,903
Retail or Service establishments	18,674	144,728
Agriculture	132	1,025
Institutions of Higher Education	911	281,150
Sheltered Workshop[a/]	5,125	127,100
Patient Worker[a/]	151	1,952

[a/] A single establishment may hold more than one type of certificate.

Minimum wage exemption certificates issued under Section 14 of the Fair Labor Standards Act, and estimated number of workers authorized by such certificates, by type of certificate, selected periods

Type of certificate	September 21, 1976 to March 20, 1977			September 21, 1975 to March 20, 1976			Fiscal year ending June 20, 1976		
		Certificates in effect on March 20, 1977			Certificates in effect on March 20, 1976			Certificates in effect on June 20, 1976	
	Certificates granted	Number	Estimated number of workers authorized	Certificates granted	Number	Estimated number of workers authorized	Certificates granted	Number	Estimated number of workers authorized
Total	19,747	12,884	156,862 1/	26,443	17,137	188,356 1/	54,841	17,606	183,743 1/
Industrial certificates	8,815	7,018	7,018	15,676	11,440	11,440	27,676	11,795	11,795
Handicapped worker	4,486	6,328	6,328	7,921	10,113	10,113	11,843	10,739	10,739
Vocational rehabilitation and V.A trainees	1,193	690	690	2,276	1,327	1,327	3,748	1,056	1,056
Apprentice	36	2/	2/	39	2/	2/	101	2/	2/
Student learner	3,100	2/	2/	5,440	2/	2/	11,984	2/	2/
Establishment certificates	10,932	5,866	149,844	10,767	5,697	176,916	27,165	5,811	171,948
Learner	33	2/	2/	47	2/	2/	100	91	1,736
Student learner	0	-	-	0	-	-	0	-	-
Full-time student	8,305	2/	2/	7,706	2/	2/	21,110	2/	2/
Sheltered workshop	2,531	5,679	146,982	2,778	5,102	146,225	5,379	5,133	145,442
Patient worker	63	187	2,862	236	595	30,691	576	587	24,770

1/ Excludes workers authorized under apprentice, student learner, learner, and full time student certificates.
2/ Data not collected.

Employment Standards Administration
Division of Evaluation and Research
August 5, 1977

ANALYSIS OF MCDONALD'S UTILIZATION OF FULL-TIME STUDENT CERTIFICATES

There is no company operated McDonald's which holds a full-time student certificate. There are 40 franchise operations which were issued certificates during the year ending June 1977. The average percentage allowance of the certificates range from 15 to 45 percent, with the average of all 40 being about 36 percent. 36 of the 40 applications were renewals of authority. 7 of the 36 indicated that the previous authority had not been utilized. The 29 McDonald's which utilized the previous authority reported a total of 1,605,252 hours for all employees and 255,493 hours of full-time students at less than the minimum wage under the previous authority. These 29 McDonald's had an estimated 550,000 hours available for full-time students at the lower rate, thus they used only about 45 percent of what was available. However, it should be noted that the percentage of utilization varied considerably between establishments with a low of three percent and a high of 99 percent.

FULL-TIME STUDENT CERTIFICATES WITH MONTHLY ALLOWANCES IN EXCESS OF TEN PERCENT ISSUED TO RESTAURANTS AND FAST FOOD ESTABLISHMENTS DURING THE YEAR ENDING JUNE 1977, WITH A BREAKDOWN FOR CERTAIN CHAIN OPERATIONS.

NAME OF CHAIN	NUMBER OPERATED BY PARENT COMPANY	NUMBER OPERATED BY FRANCHISER	TOTAL
BURGER CHEF	113	235	348
GINO'S	137	-	137
MCDONALD'S	-	40	40
PONDEROSA	328	109	437
ALL OTHERS	-	-	1,297
TOTAL			2,259

NOTE: There are approximately 1,200 additional restaurants and fast food establishments with certificates authorizing not more than four full-time students on any workday or certificates with allowances of not more than ten percent during any month.

Comparison of What the Minimum Wage Would Be/Would Have Been If Indexed

1. Table 1 presents calculations on what the minimum wage would be if it had been indexed at 53 percent of average hourly earnings in manufacturing since 1950--$2.55 per hour if indexed at straight-time by January 1, 1977. If it had been indexed at 53 percent of average hourly earnings in the private nonfarm sector the minimum wage by January 1, 1977 would have been $2.49 per hour.

2. Table 2 is another way of presenting the data in table 1 but using a common starting point--$0.71 which is 53 percent of average straight-time hourly earnings of production and related workers in manufacturing in 1950. Since data for private nonfarm workers are not available for earlier years, that series begins with January 1966 when average straight-time hourly earnings in manufacturing were $1.31. The minimum wage rate would have been $2.57 per hour if the 71 cents base had been increased since 1950 in line with the percentage change in gross average hourly earnings in manufacturing.

3. Table 3 presents the historic ratio of minimum wage levels to average straight-time hourly earnings of production workers in manufacturing. Since 1938, the ratio has fluctuated between 43 and 57 percent for workers originally covered by the Fair Labor Standards Act.

4. Table 4 documents the value or purchasing power of the minimum wage rate since 1938. Over the last twenty years, the real purchasing power of increasing minimum wage rates has been held constant by increases in the Consumer Price Index.

5. Table 5 presents a review of the historic relationship of the minimum wage rate to poverty level income. At no time since 1959 has the minimum wage rate (annualized) been sufficient to produce a level of income above the poverty level.

6. Table 6-7-8 present data for various minimum wage levels in the past--$1.60 in 1968, $1.40 in 1967 and $1.15 in 1961. Tables indicate what the present minimum wage rates would have been if these earlier minimum wage levels had been indexed or changed in line with percentage changes in various wage series or changes in the CPI.

Table 1. Comparison of minimum wages achieved through indexing at fifty-three percent of alternative earnings series 1/ with the legislated minimum, January 1950 - January 1978

Effective date	Legislated minimum wage 2/	Minimum wage as 53% of --- Average hourly earnings in manufacturing: Straight-time	Gross	Average hourly earnings in private nonfarm sector
January 1, 1950	$ .72	$ .71	$ .73	-
January 1, 1951	.75	.72	.74	-
January 1, 1952	.75	.77	.80	-
January 1, 1953	.75	.82	.85	-
January 1, 1954	.75	.87	.90	-
January 1, 1955	.75	.91	.94	-
January 1, 1956	.96	.93	.96	-
January 1, 1957	1.00	.97	1.01	-
January 1, 1958	1.00	1.03	1.06	-
January 1, 1959	1.00	1.07	1.10	-
January 1, 1960	1.00	1.11	1.14	-
January 1, 1961	1.05	1.14	1.18	-
January 1, 1962	1.15	1.18	1.21	-
January 1, 1963	1.18	1.21	1.25	-
January 1, 1964	1.25	1.24	1.28	-
January 1, 1965	1.25	1.28	1.32	-
January 1, 1966	1.25	1.31	1.36	$1.27
January 1, 1967	1.39	1.35	1.41	1.33
January 1, 1968	1.58	1.41	1.47	1.39
January 1, 1969	1.60	1.48	1.54	1.46
January 1, 1970	1.60	1.57	1.64	1.56
January 1, 1971	1.60	1.67	1.74	1.66
January 1, 1972	1.60	1.77	1.84	1.77
January 1, 1973	1.60	1.88	1.95	1.88
January 1, 1974	1.87	1.99	2.09	2.00
January 1, 1975	2.10	2.13	2.23	2.15
January 1, 1976	2.30	2.37	2.45	2.33
January 1, 1977	2.30	2.55	2.64	2.49
January 1, 1978 3/	2.65	2.75	2.86	2.67
Average 1950-1977	$1.29	$1.34	$1.39	-
Average 1966-1977	1.73	1.79	1.86	$1.77

1/ The minimum effective in January is based on the average of the series for the 12-month period ending the preceding June.
2/ The minimum wage is weighted by the number of months each was in effect during the course of the year.
3/ Estimated.

Employment Standards Administration
Division of Evaluation and Research
August 2, 1977

Table 2. Comparison of minimum wages achieved through alternative series being indexed at fifty-three percent of average straight-time hourly earnings of production workers in manufacturing for the base period, 1/ January 1950-January 1978

Effective date	Legislated minimum wage 2/	Series: Average hourly earnings in manufacturing: Straight-time	Series: Average hourly earnings in manufacturing: Gross	Average hourly earnings in private nonfarm sector	Consumer price index
January 1, 1950	$ .72	$ .71	$ .71	-	$ .71
January 1, 1951	.75	.72	.72	-	.69
January 1, 1952	.75	.77	.78	-	.74
January 1, 1953	.75	.82	.83	-	.77
January 1, 1954	.75	.87	.88	-	.78
January 1, 1955	.75	.91	.91	-	.79
January 1, 1956	.96	.93	.93	-	.79
January 1, 1957	1.00	.97	.98	-	.81
January 1, 1958	1.00	1.03	1.03	-	.84
January 1, 1959	1.00	1.07	1.07	-	.85
January 1, 1960	1.00	1.11	1.11	-	.86
January 1, 1961	1.05	1.14	1.15	-	.87
January 1, 1962	1.15	1.18	1.18	-	.88
January 1, 1963	1.18	1.21	1.22	-	.89
January 1, 1964	1.25	1.24	1.25	-	.91
January 1, 1965	1.25	1.28	1.29	-	.92
January 1, 1966	1.25	1.31	1.33	$1.31	.94
January 1, 1967	1.39	1.35	1.37	1.36	.97
January 1, 1968	1.58	1.41	1.43	1.43	$1.00
January 1, 1969	1.60	1.48	1.50	1.50	1.05
January 1, 1970	1.60	1.57	1.60	1.60	1.11
January 1, 1971	1.60	1.67	1.69	1.71	1.16
January 1, 1972	1.60	1.77	1.79	1.81	1.21
January 1, 1973	1.60	1.88	1.90	1.93	1.26
January 1, 1974	1.87	1.99	2.03	2.06	1.37
January 1, 1975	2.10	2.13	2.17	2.21	1.52
January 1, 1976	2.30	2.37	2.39	2.39	1.63
January 1, 1977	2.30	2.55	2.57	2.56	1.72
January 1, 1978 3/	2.65	2.75	2.79	2.75	$ .97
Average 1950-1977	$1.29	$1.34	$1.35	-	-
Average 1966-1977	1.73	-	-	$1.82	

1/ The minimum effective in January is based on the average of the series for the 12-month period ending the preceding June. The minimum for the base period is set at fifty-three percent of average straight-time hourly earnings in manufacturing. Thus, the minimum is established at 71 cents in 1950 for gross average hourly earnings in manufacturing and for the consumer price index and at $1.31 for average hourly earnings in the private nonfarm sector in 1966 (the earliest year for which such data were available).

2/ The minimum wage is weighted by the number of months each was in effect during the course of the year.

3/ Estimated.

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Table 3. Ratio of Fair Labor Standards minimum wage and rates provided in S. 1871 to average straight-time hourly earnings of production workers in manufacturing, October 1938-January 1978 and projected estimates for January 1, 1978-January 1, 1981

Effective date	Minimum wage rate			Average straight-time hourly earnings of production workers in manufacturing	Ratio of minimum wage to average straight-time hourly earnings		
	Old coverage	New nonfarm coverage	Farm-workers		Old coverage	New nonfarm coverage	Farm-workers
October 1938	$ .25	-	-	NA	NA	-	-
October 1939	.30	-	-	NA	NA	-	-
October 1945 1/	.40	-	-	.93	43	-	-
January 1950	.75	-	-	1.36	55	-	-
March 1956	1.00	-	-	1.86	54	-	-
September 1961	1.15	$1.00	-	2.25	51	44	-
September 1963	1.25	-	-	2.38	53	-	-
September 1964	-	1.15	-	2.46	-	47	-
September 1965	-	1.25	-	2.51	-	50	-
February 1967	1.40	1.00	$1.00	2.68	52	37	37
February 1968	1.60	1.15	1.15	2.83	57	41	41
February 1969	-	1.30	1.30	3.00	-	43	43
February 1970	-	1.45	-	3.17	-	46	-
February 1971	-	1.60	-	3.39	-	47	-
May 1974	2.00	1.90	1.60	4.17	48	46	38
January 1975	2.10	2.00	1.80	4.54	46	44	40
January 1976	2.30	2.20	2.00	4.85	47	45	41
January 1977	-	2.30	2.20	5.25	-	44	42
January 1978	-	-	2.30	5.59 2/	-	-	41
Estimated rates under S. 1871							
January 1, 1978	2.65	2.65	2.65	5.59 2/	47	47	47
January 1, 1979	2.89	2.89	2.89	5.98 2/	48	48	48
January 1, 1980	3.15	3.15	3.15	6.40 2/	49	49	49
January 1, 1981	3.37	3.37	3.37	6.84 2/	49	49	49

1/ By July 1944 the minimum wage had effectively been raised to $.40 for all workers covered by the Fair Labor Standards Act. This was achieved by industry committees provided for by the Act.
2/ Based on an estimated 7 percent annual increase.

NA - Not available.

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Table 4. Real value of the Federal minimum wage and rates provided in S. 1871 (in constant dollars), October 1938-January 1978 and projected estimates for January 1, 1978-January 1, 1981

Effective date	Old coverage		New nonfarm coverage		Farmworkers	
	Minimum wage rate	Value in constant dollars (Oct. 1938=100)	Minimum wage rate	Value in constant dollars (Oct. 1938=100)	Minimum wage rate	Value in constant dollars (Oct. 1938=100)
October 1938	$ .25	$.25	-	-	-	-
October 1939	.30	.30	-	-	-	-
October 1945	.40	.31	-	-	-	-
January 1950	.75	.45	-	-	-	-
March 1956	1.00	.52	-	-	-	-
September 1961	1.15	.54	$1.00	$.47	-	-
September 1963	1.25	.57	-	-	-	-
September 1964	-	-	1.15	.52	-	-
September 1965	-	-	1.25	.55	-	-
February 1967	1.40	.60	1.00	.43	$1.00	$.43
February 1968	1.60	.66	1.15	.47	1.15	.47
February 1969	-	-	1.30	.51	1.30	.51
February 1970	-	-	1.45	.53	-	-
February 1971	-	-	1.60	.56	-	-
May 1974	2.00	.58	1.90	.55	1.60	.46
January 1975	2.10	.57	2.00	.54	1.80	.49
January 1976	2.30	.58	2.20	.56	2.00	.50
January 1977	-	-	2.30	.55	2.20	.53
January 1978	-	-	-	-	2.30	.52 1/
Estimated rates under S. 1871						
January 1, 1978	2.65	.60	2.65	.60 1/	2.65	.60 1/
January 1, 1979	2.89	.63	2.89	.63 1/	2.89	.63 1/
January 1, 1980	3.15	.65	3.15	.65 1/	3.15	.65 1/
January 1, 1981	3.37	.66	3.37	.66 1/	3.37	.66 1/

1/ Based on an estimated 5 percent annual increase in the Consumer Price Index.

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Table 5. Ratio of minimum wage worker income and rates provided in S. 1871 to the poverty level income of a 4-person family, 1959-1977 and projected estimates for January 1, 1978-January 1, 1981

Year	Consumer Price Index (all items 1963=100)	Poverty level income 4-person family		Minimum wage earnings 1/									Ratio of minimum wage to poverty level income		
				Old coverage			New nonfarm coverage			Farmworkers					
		Nonfarm	Farm	Hourly rate	Effective date	Annual earnings	Hourly rate	Effective date	Annual earnings	Hourly rate	Effective date	Annual earnings	Old coverage	New nonfarm coverage	Farmworkers 2/
1959	95.2	$2,973	$2,539	$1.00	3/56	$2,080	-	-	-	-	-	-	70	-	-
1960	96.7	3,022	2,576	1.00	" "	2,080	-	-	-	-	-	-	69	-	-
1961	97.7	3,054	2,602	1.15	9/61	2,392	$1.00	9/61	$2,080	-	-	-	78	68	-
1962	98.8	3,089	2,632	1.15	" "	2,392	1.00	" "	2,080	-	-	-	77	67	-
1963	100.0	3,128	2,664	1.25	9/63	2,600	1.00	" "	2,080	-	-	-	83	66	-
1964	101.3	3,169	2,701	1.25	" "	2,600	1.15	9/64	2,392	-	-	-	82	75	-
1965	103.1	3,223	2,750	1.25	" "	2,600	1.25	9/65	2,600	-	-	-	81	81	-
1966	106.0	3,317	2,831	1.25	" "	2,600	1.25	" "	2,600	-	-	-	78	73	-
1967	109.1	3,410	2,906	1.40	2/67	2,912	1.00	2/67	2,080	$1.00	2/67	$2,080	85	61	72
1968	113.6	3,553	3,034	1.60	2/68	3,328	1.15	2/68	2,392	1.15	2/68	2,392	94	67	79
1969	119.7	3,743	3,195	1.60	" "	3,328	1.30	2/69	2,704	1.30	2/69	2,704	89	72	85
1970	126.8	3,968	3,385	1.60	" "	3,328	1.45	2/70	3,016	1.30	" "	2,704	84	76	80
1971	132.3	4,137	3,527	1.60	" "	3,328	1.60	2/71	3,328	1.30	" "	2,704	80	80	77
1972	136.6	4,275	3,643	1.60	" "	3,328	1.60	" "	3,328	1.30	" "	2,704	78	78	74
1973	145.1	4,540	3,871	1.60	" "	3,328	1.60	" "	3,328	1.30	" "	2,704	73	73	70
1974	161.1	5,038	4,302	2.00	5/74	4,160	1.90	5/74	3,952	1.60	5/74	3,328	83	78	77
1975	175.8	5,500	4,695	2.10	1/75	4,368	2.00	1/75	4,160	1.80	1/75	3,744	79	76	80
1976	185.9	5,820	4,970	2.30	1/76	4,784	2.20	1/76	4,576	2.00	1/76	4,160	82	79	84
1977	195.2 3/	6,111	5,219	2.30	" "	4,784	2.30	1/77	4,784	2.20 4/	1/77	4,576	78	78	88
Estimated rates under S. 1871															
1978	205.0 3/	6,417	5,480	2.65	1/78	5,512	2.65	1/78	5,512	2.65	1/78	5,512	86	86	101
1979	215.3 3/	6,738	5,754	2.89	1/79	6,011	2.89	1/79	6,011	2.89	1/79	6,011	89	89	104
1980	226.1 3/	7,075	6,042	3.15	1/80	6,552	3.15	1/80	6,552	3.15	1/80	6,552	93	93	108
1981	237.4 3/	7,429	6,344	3.37	1/81	7,010	3.37	1/81	7,010	3.37	1/81	7,010	94	94	110

1/ Minimum wage earnings based on earnings of full-time year-round workers (2,080 hours) at minimum wage.
2/ Ratio of farmworker minimum wage to poverty level income for families residing on farms.
3/ Based on an estimated 5 percent annual increase.
4/ Beginning January 1, 1978, $2.30 an hour effective under FLSA Amendments of 1974 for farmworkers.

Note: Annual poverty level incomes were derived from the revised method of adjusting the Social Security Administration's 1963 poverty thresholds for changes in the C. P. I. (all items).

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Table 6. Federal minimum wage effective on February 1968 ($1.60) adjusted annually by percent change in selected indicators, February 1968-February 1977 and projected estimates for January 1, 1978-January 1, 1981

Date	Legislated minimum wage	$1.60 minimum wage adjusted to percent change in --				
		CPI (all items)	Average hourly earnings			Hourly earnings index 1/
			Excluding overtime: Production workers in manufacturing	Gross earnings: Production workers in manufacturing 1/	Production or nonsupervisory workers on nonagricultural payrolls 1/	
February 1968	$1.60	$1.60	$1.60	$1.60	$1.60	$1.60
February 1969	1.60	1.68	1.70	1.70	1.71	1.70
February 1970	1.60	1.79	1.80	1.79	1.82	1.81
February 1971	1.60	1.88	1.92	1.91	1.94	1.94
February 1972	1.60	1.95	2.03	2.02	2.07	2.07
February 1973	1.60	2.03	2.15	2.16	2.20	2.19
February 1974	1.60	2.23	2.29	2.30	2.36	2.35
February 1975	2.10	2.48	2.57	2.54	2.56	2.58
February 1976	2.30	2.64	2.74	2.74	2.74	2.78
February 1977	2.30	2.80	2.95	2.95	2.94	2.97
Estimated rates under S. 1871						
January 1978 2/	2.65	2.93	3.14	3.14	3.13	3.16
January 1979 2/	2.89	3.08	3.36	3.36	3.35	3.38
January 1980 2/	3.15	3.23	3.60	3.60	3.58	3.62
January 1981 2/	3.37	3.39	3.85	3.85	3.83	3.87

1/ Computation based on seasonally adjusted earnings data.
2/ Estimated on the basis of annual increases of 7 percent in average hourly earnings and 5 percent in the Consumer Price Index.

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August 1, 1977

Table 7. Federal minimum wage effective on February 1967 ($1.40) adjusted annually by percent change in selected indicators, February 1967-February 1977 and projected estimates for January 1, 1978-January 1, 1981

Date	Legislated minimum wage	CPI (all items)	$1.40 minimum wage adjusted by the percent change in -- Average hourly earnings Excluding overtime: Production workers in manufacturing	Gross earnings: Production workers in manufacturing 1/	Gross earnings: Production or nonsupervisory workers on nonagricultural payrolls 1/	Hourly earnings index 1/
February 1967	$1.40	$1.40	$1.40	$1.40	$1.40	$1.40
February 1968	1.60	1.45	1.48	1.48	1.47	1.48
February 1969	1.60	1.52	1.57	1.58	1.57	1.58
February 1970	1.60	1.62	1.66	1.67	1.67	1.68
February 1971	1.60	1.70	1.77	1.78	1.78	1.80
February 1972	1.60	1.76	1.87	1.89	1.90	1.92
February 1973	1.60	1.83	1.98	2.02	2.02	2.03
February 1974	2.00	2.01	2.11	2.15	2.16	2.17
February 1975	2.10	2.23	2.37	2.38	2.35	2.38
February 1976	2.30	2.37	2.53	2.56	2.52	2.57
February 1977	2.30	2.51	2.73	2.76	2.70	2.74
Estimated rates under S. 1871						
January 1978 2/	2.65	2.63	2.90	2.94	2.87	2.92
January 1979 2/	2.89	2.76	3.10	3.14	3.07	3.12
January 1980 2/	3.15	2.90	3.32	3.36	3.28	3.34
January 1981 2/	3.37	3.05	3.55	3.60	3.51	3.57

1/ Computation based on seasonally adjusted earnings data.
2/ Estimated on the basis of annual increases of 7 percent in average hourly earnings and 5 percent in the Consumer Price Index.

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Table 8. Federal minimum wage effective on September 1961 ($1.15) adjusted annually by percent change in selected indicators, September 1961-September 1977 and projected estimates for January 1, 1978-January 1, 1981

Date	Legislated minimum wage	CPI (all items)	$1.15 minimum wage adjusted by the percent change in-- Average hourly earnings: Excluding overtime: Production workers in manufacturing	Gross earnings: Production workers in manufacturing 1/	Gross earnings: Production or nonsupervisory workers on nonagricultural payrolls 1/	Hourly earnings index 1/
September 1961	$1.15	$1.15	$1.15	$1.15	$1.15	$1.15
September 1962	1.15	1.17	1.18	1.18	1.19*	1.19*
September 1963	1.25	1.18	1.22	1.22	1.22*	1.22*
September 1964	1.25	1.19	1.26	1.26	1.27*	1.26*
September 1965	1.25	1.21	1.29	1.29	1.31	1.31
September 1966	1.25	1.25	1.34	1.35	1.37	1.37
September 1967	1.40	1.28	1.40	1.39	1.43	1.44
September 1968	1.60	1.34	1.49	1.49	1.53	1.54
September 1969	1.60	1.42	1.59	1.58	1.64	1.64
September 1970	1.60	1.50	1.69	1.67	1.73	1.75
September 1971	1.60	1.56	1.78	1.75	1.85	1.87
September 1972	1.60	1.61	1.90	1.88	1.97	1.99
September 1973	1.60	1.73	2.03	2.02	2.11	2.13
September 1974	2.00	1.94	2.24	2.22	2.29	2.32
September 1975	2.10	2.09	2.43	2.39	2.44	2.51
September 1976	2.30	2.20	2.63	2.59	2.61	2.69
September 1977 2/	2.30	2.31	2.82	2.77	2.79	2.88
Estimated rates under S. 1871						
January 1978 2/	2.65	2.34	2.87	2.82	2.84	2.93
January 1979 2/	2.89	2.46	3.07	3.01	3.04	3.14
January 1980 2/	3.15	2.58	3.28	3.22	3.25	3.36
January 1981 2/	3.37	2.71	3.51	3.45	3.48	3.59

*Computation based on annual average.
1/ Computation based on seasonally adjusted earnings data.
2/ Estimated on the basis of annual increases of 7 percent in average hourly earnings and 5 percent in the Consumer Price Index.

Employment Standards Administration
Division of Evaluation and Research
August 1, 1977

Elimination of the Tip Credit - National Estimates

Department of Labor officials have met with representatives of the Restaurant Association, reviewed their report and testimony and have costed out alternative provisions for dealing with tip credit allowances towards the minimum wage. Complete elimination of the tip credit would cost $1.2 billion dollars more the first year, than the current 50 percent allowance. By way of comparison, the phase-out in S.1871 would add only $47 million the first year and H.R. 3744, $65 million.

Under S.1871 the additional cost of the elimination of the tip credit would be spread out with additional decrements each year until it would be completely eliminated on January 1, 1983.

According to the Department of Commerce, the restaurant industry is doing well--employment has been going up, receipts have been rising and the public is eating out more. Projections are for continued prosperty in the industry.

Estimated direct impact of the compromise minimum wage proposal with retention of current 50 percent tip credit, January 1, 1978-January 1, 1981

Effective date	Minimum wage rate 1/			Employees affected		Wage bill increase	
	Nontipped employees	Tipped employees	Tip allowance	Number in (thousands)	Percent	Amount (millions	Percent
January 1, 1978	$2.65	$1.33	$1.33	4,530	8.7	$2,166	0.4
January 1, 1979	2.89	1.45	1.45	4,992	9.6	1,983	.4
January 1, 1980	3.15	1.58	1.58	5,541	10.7	2,405	.4
January 1, 1981	3.37	1.69	1.69	5,541	10.7	2,214	.4

1/ Minimum computed on base period of July - June. Earnings levels were projected assuming an annual increase of 7 percent and retention of current 50 percent allowance towards the applicable minimum wage for tips.

Employment Standards Administration
Division of Evaluation and Research
July 20, 1977

Attachment 1

Estimated direct impact of compromise minimum wage proposal with no tip credit on January 1, 1978 to January 1, 1981

Effective date	Minimum wage rate 1/	Employees affected		Wage bill increase	
		Number (thousands)	Percent	Amount (millions)	Percent
January 1, 1978	$2.65	5,124	9.9	$3,351	0.7
January 1, 1979	2.89	5,583	10.8	2,276	.4
January 1, 1980	3.15	6,128	11.8	2,724	.5
January 1, 1981	3.37	6,128	11.8	2,485	.4

1/ Minimum computed on base period of July - June. Earnings levels were projected assuming an annual increase of 7 percent with no allowance towards the applicable minimum wage for tips.

Employment Standards Administration
Division of Evaluation and Research
August 1, 1977

Attachment 2

· Estimated direct impact of the compromise minimum wage proposal with a gradual phase-out of the tip credit allowance, January 1, 1978-January 1, 1983

Effective date	Minimum wage rate 1/		Tip allowance	Employees affected		Wage bill increase	
	Nontipped employees	Tipped employees		Number (thousands)	Percent	Amount (millions)	Percent
January 1, 1978	$2.65	$1.46	45%	4,601	8.9	$2,213	0.4
January 1, 1979	2.89	1.73	40%	5,138	9.9	2,074	.4
January 1, 1980	3.15	2.21	30%	5,845	11.3	2,695	.5
January 1, 1981	3.37	2.70	20%	5,970	11.5	2,656	.4
January 1, 1982	3.61	3.25	10%	6,072	11.7	3,013	.4
January 1, 1983	3.86	3.86	-	6,142	11.8	3,286	.5

1/ Minimum computed on base period of July - June. Earnings levels were projected assuming an annual increase of 7 percent and a gradual phase-out of the allowance towards the applicable minimum wage for tips.

Employment Standards Administration
Division of Evaluation and Research
July 22, 1977

Attachment 3

Estimated direct impact of H.R. 3744, January 1, 1978-January 1, 1981

Effective date	Minimum wage rate 1/		Tip allowance	Employees affected		Wage bill increase	
	Nontipped employees	Tipped employees		Number (thousands)	Percent	Amount (millions)	Percent
January 1, 1978	$2.65	$1.50	$1.15	4,623	8.9	$2,231	0.4
January 1, 1979	2.89	1.79	1.10	5,171	10.0	2,097	.4
January 1, 1980	3.15	2.10	1.05	5,797	11.2	2,577	.4
January 1, 1981	3.37	2.37	1.00	5,850	11.3	2,399	.4

1/ Minimum computed on base period of July - June. Earnings levels were projected assuming an annual increase of 7 percent and specified cents per hour allowance towards the applicable minimum wage for tips.

Employment Standards Administration
Division of Evaluation and Research
July 20, 1977

Attachment 4

Estimated direct impact on restaurants of H.R. 3744 with alternative tip allowances towards the minimum wage, January 1, 1978 - January 1, 1983

Effective date of minimum wage	Minimum wage rate 1/		Tip allowance	Employees affected		Annual wage bill increase	
	Nontipped employees	Tipped employees		Number (thousands)	Percent	Amount (millions)	Percent
January 1, 1978	$2.65	$1.33	50%	631	30.2	$313	2.7
January 1, 1979	2.89 2/	1.45	50%	678	32.4	267	2.2
January 1, 1980	3.15 3/	1.58	50%	726	34.7	312	2.4
January 1, 1981	3.37 3/	1.69	50%	726	34.7	279	2.0
January 1, 1978	$2.65	$1.50	$1.15	715	34.2	$370	3.3
January 1, 1979	2.89 2/	1.74	1.15	814	38.9	341	2.8
January 1, 1980	3.15 3/	2.00	1.15	910	43.5	419	3.1
January 1, 1978	$2.65	$1.33	$1.33	631	30.2	$313	2.7
January 1, 1979	2.89 2/	1.56	1.33	729	34.9	304	2.5
January 1, 1980	3.15 3/	1.82	1.33	831	39.8	381	2.9
January 1, 1978	$2.65	$1.33	50%	631	30.2	$313	2.7
January 1, 1979	2.89 2/	1.73	40%	809	38.7	379	3.1
January 1, 1980	3.15 3/	2.21	30%	993	47.5	567	4.3
January 1, 1978	$2.65	$1.59	40%	760	36.4	$411	3.6
January 1, 1979	2.89 2/	2.02	30%	940	45.0	488	3.9
January 1, 1980	3.15 3/	2.52	20%	1,099	52.6	691	5.1
January 1, 1978	$2.65	$1.46	45%	695	33.2	$355	3.1
January 1, 1979	2.89 2/	1.73	40%	809	38.7	348	2.8
January 1, 1980	3.15 3/	2.21	30%	993	47.5	567	4.3
January 1, 1981	3.37 3/	2.70	20%	1,099	52.6	665	4.6
January 1, 1982	3.61 3/	3.25	10%	1,176	56.3	827	5.2
January 1, 1983	3.86 3/	3.86	0%	1,226	58.6	971	5.6
January 1, 1978	$2.65	$1.50	$1.15	715	34.2	$370	3.3
January 1, 1979	2.89 2/	1.79	1.10	837	40.0	368	3.0
January 1, 1980	3.15 3/	2.10	1.05	952	45.5	464	3.5
January 1, 1981	3.37 3/	2.37	1.00	997	47.7	441	3.1

1/ Minimum computed on base period of July - June. Earnings levels were projected assuming an annual increase of 7 percent and a specified allowance towards the minimum wage for tips.

2/ 52 percent of average straight-time hourly earnings of production and related workers on manufacturing payrolls.

3/ 53 percent of average straight-time hourly earnings.

Employment Standards Administration
Division of Evaluation and Research
July 26, 1977 (Revised July 28, 1977)

State Laws

Forty-five jurisdictions (forty-one states, the District of Columbia, Guam, Puerto Rico, and the U.S. Virgin Islands) have minimum wage laws and minimum wage rates in effect. The laws of 43 jurisdictions apply to both men and women; the laws of Colorado and Utah apply to women only. Louisiana has a wage board law on its statute books, but it has no minimum wage rate in effect. Eight states - Alabama, Arizona, Florida Iowa, Mississippi, Missouri, South Carolina, and Tennessee - do not have minimum wage laws. The state law in Georgia exempts tipped occupations from coverage.

In those jurisdictions with minimum wage laws in effect, eleven (Alaska, California, Guam, Idaho, Montana, Nevada, New Mexico, North Dakota, Oregon, Puerto Rico and Washington) do not allow a tip credit. Among the remaining jurisdictions, fourteen require a cash wage above $1.15 per hour (the minimum cash wage required under Federal law); seven require the same minimum cash payment ($1.15 per hour) as the Federal law; and twelve jurisdictions permit cash payments below $1.15 per hour.

PRELIMINARY

Comparison of Minimum Hourly Cash Wage for TIPPED OCCUPATIONS Under Federal and State Laws 1/
July 1, 1977

Jurisdiction	Future effective date	Basic minimum rate	Maximum tip credit	Minimum cash wage
FEDERAL: FLSA	1/	$2.30	50%	$1.15
LAW DOES NOT ALLOW TIP CREDIT				
		Cash wage higher than FLSA		
Alaska				2.80
California				2.50
Guam				2.30
Idaho				2.30
Montana 2/				2.00
Nevada				2.30
New Mexico				1.50 3/
North Dakota				2.20
Oregon				2.30
Puerto Rico				
Restaurant, bar and soda fountain industry Waiter, bartender, tipped counter service				
Large establishments				1.70 3/
Other establishments				1.45 3/
Washington				2.30

See footnotes at end of table.

Comparison of Minimum Hourly Cash Wage for TIPPED OCCUPATIONS Under Federal and State Laws 1/
July 1, 1977 (Continued)

Jurisdiction	Future effective date	Basic minimum rate	Maximum tip credit	Minimum cash wage
LAW ALLOWS TIP CREDIT				
		Cash wage higher than FLSA		
Connecticut		$2.31		
Beauty shop			None	$2.31
Restaurant, hotel restaurant			60¢	1.71
Other hotel occupations			37¢	1.94
Any other industry			20¢	2.11
District of Columbia				
Beauty operator		2.50	20¢	2.30
Bootblack		2.40	35¢	2.05
Parking attendant		2.75	55¢	2.20
Hotel, restaurant, and allied occupations		2.80	$1.45	1.35
Hawaii 2/		2.40	20¢	2.20
Massachusetts		2.10	40%	1.26
Michigan 2/		2.30	25%	1.725
Minnesota		2.10	25%	1.575
	9/15/77	2.30	20%	1.84
New Jersey		2.50		
Beauty shop			None	2.50
Hotel, motel, restaurant			42% 4/	1.45 4/
Chambermaid				
nonseasonal hotel			11%	2.23
seasonal hotel			20%	2.00

*See footnotes at end of table.

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Comparison of Minimum Hourly Cash Wage for TIPPED OCCUPATIONS Under Federal and State Laws 1/
July 1, 1977 (Continued)

Jurisdiction	Future effective date	Basic minimum rate	Maximum tip credit	Minimum cash wage
LAW ALLOWS TIP CREDIT				
		Cash wage same as FLSA		
Illinois		$2.30	50%	$1.15
Indiana 2/				
Counter service		1.50*	10¢*	1.40*
	1/1/78	1.75		
	1/1/79	2.00		
Maine		2.30	50%	1.15
Maryland		2.30	50%	1.15
Baltimore City		2.30	50%	1.15
New Hampshire 2/		2.30	50%	1.15
North Carolina 2/		2.30	50%	1.15
Pennsylvania 2/		2.30	50%	1.15

See footnotes at end of table.

Comparison of Minimum Hourly Cash Wage for TIPPED OCCUPATIONS Under Federal and State Laws 1/
July 1, 1977

Jurisdiction	Future effective date	Basic minimum rate	Maximum tip credit	Minimum cash wage
		Cash wage lower than FLSA		
Arkansas 2/		$2.10	$1.00	$1.10
	1/1/78	2.20	1.10	1.10
	1/1/79	2.30	1.15	1.15
Colorado				
Service employees		1.90	50%	.80
Delaware		2.00	50%	1.00
Indiana 2/		1.50*		
Waiter, waitress				
food and alcohol service			50¢*	1.00*
food service			35¢*	1.15*
Car service, bellman, doorman			50¢*	1.00*
	1/1/78	1.75		
	1/1/79	2.00		
Kansas		1.60	40%	.96
Kentucky		1.60	50%	.80
Nebraska		1.60	70¢	.90
Ohio		2.10	50%	1.05 6/
	1/1/78	2.30		1.15
Oklahoma 2/		1.85	50%	.925
	10/1/77	2.00		1.00
Texas 2/		1.40	50%	.70

Comparison of Minimum Hourly Cash Wage for TIPPED OCCUPATIONS Under Federal and State Laws 1/
July 1, 1977 (Concluded)

Jurisdiction	Future effective date	Basic minimum rate	Maximum tip credit	Minimum cash wage
Virginia 2/		$2.20	Actual amount received	
Wyoming		1.60	50¢	$1.10

No State Law

Alabama	Louisiana
Arizona	Mississippi
Florida	Missouri
Georgia (law exempts tipped occupations) 2/	South Carolina
Iowa	Tennessee

See footnotes at end of table.

FOOTNOTES

* Indiana: Tip offsets to conform with 1977 rate increase are to be reconsidered by the State Wage Adjustment Board on August 2, 1977.

1/ A tipped occupation is defined in the Federal and many State laws as one which a person customarily receives a minimum amount of tips, usually $20 a month, but the dollar threshold is $10 a week in Connecticut, $40 a month in New Mexico, $35 a month in Minnesota and $1.50 per hour in most tipped occupations in New York.

2/ Arkansas, Georgia, Indiana, Montana, North Carolina, Oklahoma, . . . Pennsylvania, Texas, Virginia: The laws exempt employment subject to FLSA.

West Virginia: Employers are exempt from State law if 80% of their employees are subject to any Federal law on minimum wage, maximum hours, and overtime.

Hawaii, Michigan, New Hampshire: The laws exempt employment subject to FLSA unless the State standard is higher.

3/ New Mexico, Puerto Rico: Technically, there is no provision for a tip credit. However, in New Mexico two minimum wage rates are prescribed, $1.50 an hour for tipped occupations, and $2.30 for non-tipped. In Puerto Rico, the rate for non-tipped occupations is $2.00 in establishments with gross annual income of $250,000 or more and $1.65 in other establishments. This wage order does not apply to hotel industry covered by a separate order.

4/ New Jersey: The established credit is the total amount allowable for tips, food, and lodging combined. In specific situations where the employer can prove to the satisfaction of the labor department that the tips actually received exceed the creditable amount, a higher tip credit may be taken.

5/ Utah: Geographic differentials have been omitted from chart.

6/ Ohio: Employers with less than $95,000 gross annual sales in industries covered by wage orders in effect on 12/31/73, issued under an earlier law, must continue to pay the rates under those orders: Retail Trade--$1.25; Food and Lodging--nonservice, 75 cents and service, 55 cents.

Employment Standards Administration
Division of State Employment Standards

Child Labor in Agriculture and the Wage Bill Increase for Agriculture Required by S. 1871

Summary

Available survey data indicate a slight decline in the number of youth under age 14 employed on all U.S. farms. The total number declined from 57,000 in July 1975 to 56,100 in July 1976. In recent years, there has been a significant increase in the number of young workers employed by covered farms.

While the number of farms declined between 1967 and 1975, farms employing over 500 man-days of labor increased by one-third. Larger farms have increased their demand for hired farmworkers over the last decade. By 1975, 48 percent of all hired farmworkers were on farms covered by the minimum wage provisions of the FLSA.

Higher minimum wage rates under S.1871 would require an estimated wage bill increase in agriculture of $124 million in 1978, $95 million in 1979, $112 million in 1980 and $103 million in 1981.

Child Labor in United States Agriculture

Data obtained in the July 1975 and July 1976 ESA Agricultural Labor Surveys show that the number of youth under age 14 employed on all United States farms declined slightly, from 57,000 to 56,100 between the survey periods. However, they also show that the number of these youth employed on the Nation's covered farms increased significantly, from 22,100 to 27,100, over the period.

There was some noticable shifting in the numbers of these youth employed on the different types of farms. Generally, there was a decline in the number employed on the more highly mechanized (and hazardous) type of farms and on livestock farms, and there was an increase in employment in the lesser mechanized fruit and nut farms (which include strawberry and caneberry farms) and tobacco farms. This shifting occured on all farms as well as on covered farms, except that on covered cash grain farms such employment ran counter to the general shifting and increased by 200.

The employment of 14 and 15 years olds, unlike that of the under 14 age group, declined on covered farms as well as on all farms between July 1975 and July 1976. However, the shifting employment between the different types of farms was similar to that of the younger age group.

Oregon

Although there was little change in the employment of youth under age 14 in United States Agriculture as a whole between 1975 and 1976, the state of Oregon--which has traditionally employed youth in its berry and bean harvests--reported a significant reduction in such employment between 1973 and 1976. 1/ While fluctuating some between crops, they show a general decline in employment of domestic agricultural workers of all ages with sharp declines in strawberry and bean harvest employment.

According to the 1976 Oregon Annual Rural Manpower Report, there were about 6,000 children (15 percent of the total) employed in the strawberry harvest in 1972 and 1973. None were employed in the 1976 harvest; the 12-13 age group registered 42 percent, the 14-15 age group 35 percent and the age 16 and over group 23 percent.

1/ State of Oregon, Department of Human Resources, Employment Division, Annual Rural Manpower Report, 1973 and 1976.

Other States

Other states which traditionally employed youth under age 12 in hand harvesting crops prior to 1974 include Maine (blueberries and potatoes), Michigan (cucumbers for pickles, berries and tomatoes), and Washington (strawberries, blueberries and caneberries). There is insufficient employment data available to make a statistical evaluation of the impact of the 1974 child labor provisions in those states. We have convassed our field offices in three states, however, and they informed us that to their knowledge there have been no crop losses, labor shortages, or any other adverse impact as a result of the child labor provisions of the FLSA.

All workers and workers under 16 employed in agriculture, United States, July 1975 and July 1976

(Workers in thousands)

Type of Farm	All farms 1/						Covered farms 2/					
	All workers		Workers under 14 years		Workers 14-15 years		All workers		Workers under 14 years		Workers 14-15 years	
	July 1975	July 1976	July 1975	July 1976	July 1975	July 1976	July 1975	July 1976	July 1975	July 1976	July 1975	July 1976
All Farms	1898.2	1857.9	57.0	56.1	166.3	124.4	902.3	771.8	22.1	27.1	61.1	43.4
Cash grain	376.6	261.3	11.4	6.2	43.3	18.3	82.6	36.5	.1	.3	1.5	1.2
Tobacco	196.6	284.6	8.5	12.6	20.3	24.2	44.9	39.1	.7	1.4	3.5	3.5
Cotton	71.9	80.6	3.6	.8	3.2	3.4	46.2	34.4	1.6	.3	1.5	1.5
Other field crop	137.3	134.7	2.6	1.7	22.5	11.9	92.2	79.4	1.6	.5	19.7	8.9
Vegetable	134.0	140.5	5.0	4.0	14.5	7.4	106.4	116.6	3.9	.6	11.4	2.6
Fruit & Nut	252.0	297.0	12.6	24.1	12.2	21.1	218.1	218.0	12.4	23.6	10.7	18.0
Poultry	63.8	48.6	.3	.1	2.0	2.1	50.5	30.3	.1	.1	.3	.4
Dairy	140.6	112.4	3.9	1.2	12.2	8.4	34.1	17.7	.2	.0	.7	.2
Other Livestock	330.8	302.9	8.6	4.8	33.0	19.2	77.6	51.8	1.4	.2	9.6	.4
Miscellaneous	194.6	195.4	.5	.6	3.2	8.5	149.8	148.0	.2	.2	2.1	6.6

1/ Includes only farms with workers during the survey periods.
2/ Covered farms are those thathired 500 or more man-days in a peak quarter of the preceding year.

Source: U.S. Department of Labor, Employment Standards Administration, preliminary unpublished tabulations.

Estimated Number of Hired Seasonal 1/ Agricultural Workers and Annual Production by Selected Crop Activity and Source of Workers in Oregon Reported During Semimonthly Periods, 1973 and 1976 2/

Activity and Source	Employment 1973 3/										Productions (pounds) 5/
	May		June		July		August		September		October	
	15	31	15	30	15	31	15	31	15	30	15	
STATE TOTALS	8,430	10,805	36,210	34,830	18,110	23,830	22,305	16,400	14,520	12,335	11,300	
Strawberry harvest		1,175	38,565	10,200								484,000,000
Cherry harvest			6,945	6,496	1,330	305						87,600,000
Raspberry harvest			70	7,755	4,580							10,500,000
Other caneberry harvest					1,900	545	140					4,633,000
Pole bean harvest						11,020	8,585	1,745				358,700,000 6/
Blackberry harvest							1,690	1,870	305			8,060,000
All other activities	8,430	9,630	10,630	10,380	10,300	11,960	11,890	12,785	14,215	12,335	11,300	
SOURCE OF WORKERS												
Local	6,795	8,295	44,360	27,385	15,670	20,960	19,440	13,480	9,915	8,630	8,760	
Intrastate migratory	370	470	1,530	1,050	645	670	450	520	1,795	755	590	
Interstate migratory	1,265	2,040	10,320	6,395	1,795	2,200	2,415	2,400	2,810	2,950	1,950	
						1976 4/						
STATE TOTALS	7,460	8,160	25,900	39,995	19,065	14,860	14,885	18,660	14,330	12,190	11,820	
Strawberry harvest		20	16,630	21,950	565							478,000,000
Cherry harvest				7,025	2,780	280	300					85,600,000
Raspberry harvest				1,090	4,735	790						9,000,000
Other caneberry harvest					285	2,560	480	30				6,550,000
Pole bean harvest						100	2,015	1,605				272,500,000 6/
Blackberry harvest							240	1,945	1,175	135		21,300,000
All other activities	7,460	8,140	9,270	9,930	10,700	11,130	11,850	15,080	13,155	12,055	11,820	
SOURCE OF WORKERS												
Local	5,735	6,175	22,175	29,725	13,735	12,560	11,820	14,090	9,970	8,410	8,800	
Intrastate migratory	480	405	770	1,410	1,035	810	890	845	1,250	730	910	
Interstate migratory	1,245	1,580	2,955	8,860	4,295	1,490	2,175	3,725	3,110	3,050	2,110	

1/ Seasonal workers are those employed in agricultural jobs lasting less than 150 days per year.
2/ Data shown here indicate the level of employment on a single date of the survey only and do not necessarily show either peak or average employment for the month. Because of the many variables involved, such as weather, crop maturity, worker availability, and market influences, employment fluctuates widely and continually throughout the year.
3/ State of Oregon, Department of Human Resources, 1973 Annual Rural Manpower Report, Employment Division.
4/ State of Oregon, Department of Human Resources, Annual Rural Manpower Report-1976, Employment Division, p. 62.
5/ Department of Agriculture, SRS, Division of Fruits and Vegetables.
6/ Includes both pole and brush beans production. Data for pole beans production not only is not available and these data are not separatable.

Hired Farm Workers

In 1967, 383,600 hired farmworkers on 29,100 large farms (those with more than 500 man-days of labor in a peak quarter) were brought under coverage of the FLSA. While the total number of farms hiring labor declined between 1967 and 1975, the number of farms employing over 500 man-days increased by one-third. Large farms increased in number, acreage and employment. By July 1975, 48 percent of all workers were on farms covered by the minimum wage provisions of the Act (Table 1).

Federal minimum wage rates applicable to farmworkers increased from $1.00 in February 1967 to $1.80 on January 1, 1975. During the comparable time period, average hourly earnings on covered farms increased from $1.44 in May 1967 to $2.50 in July 1975 (76 percent).

While wages on noncovered farms are not as high as those on covered farms, wages on all farms increased significantly in the last decade. Between May 1967 and July 1975, annual earnings increased $1.08 on covered farms and $0.96 on noncovered farms.

The agricultural industry's shift to mechanization and use of highly complex technologies along with economic and managerial changes, were responsible for a massive exodus of hired farmworkers from the farm between 1938 and 1966. Total farm employment declined from 11.6 million to 5.2 million (55 percent) over the period. Average annual employment of hired farmworkers declined 52 percent, while farm operators and family labor dropped 56 percent.

From 1966, when minimum wage coverage was extended to hired farmworkers, until 1976, family labor continued to decline but at a slower rate. The decline in hired farmworkers employment "bottomed out" in 1972 and employment has increased every year since then. In 1976, average hired farmworkers' employment was higher than it was ten years earlier.

Between 1948 and 1966 hourly cash wages on farms rose only 45 cents (from $.78 to $1.23). In the 10 years following the extension of FLSA coverage to workers on farms employing more than 500 man-days of labor, hourly cash wages have increased 128 percent--from $1.23 to $2.81 an hour.

Number of farms, hired farmworkers, and average hourly wage earnings, United States, specified periods

(Farms and workers in thousands)

Period	All farms 1/			More than 500 man-days				500 man-days or less		
	Farms	Workers	Average hourly earnings	Farms	Workers	Average hourly earnings	Federal minimum wage rate	Farms	Workers	Average hourly earnings
July 1975	988.1	1,898.2	$2.34		902.3	$2.50	$1.80	920.1	996.0	$2.14
July 1974	1,064.2	1,790.5	2.26	39.1	829.8	2.48	1.60	1,025.2	961.7	2.07
July 1971	906.7	1,450.4	1.70	27.7	551.0	1.84	1.30	879.0	899.4	1.59
May 1968	1,317.0	1,161.8	1.47	30.0	523.0	1.65	1.15	1,287.0	638.8	1.27
May 1967	1,415.9	1,082,4	1.28	29.1	383.6	1.42	1.00	1,386.8	698.8	1.18
May 1965	2/	1,445,0	1.00	2/	430.0	2/	-	2/	1015.0	2/

1/ Farms that hired one or more workers in the previous year.
2/ Not available.

Source: U.S. Department of Labor, Employment Standards Administration, Hired Farmworkers, 1968, 1969, 1972 and preliminary unpublished tabulations.

Employment Standards Administration
Division of Evaluation and Research
July 29, 1977

HIRED FARMWORKERS 1/ - 1938-77

Year	Annual Average Employment (in thousands)			Wage Rates 1/	
	Total	Family	Hired	All Hired 2/	Hourly cash wage 3/
1938	11,622.0	8,815.0	2,807.0		
1939	11,338.0	8,611.0	2,727.0		
1940	10,979.0	8,300.0	2,679.0		
1941	10,669.0	8,017.0	2,652.0		
1942	10,504.0	7,949.9	2,555.0		
1943	10,446.0	8,010.0	2,436.0		
1944	10,219.0	7,988.0	2,231.0		
1945	10,000.0	7,881.0	2,119.0		
1946	10,295.0	8,106.0	2,189.0		
1947	10,382.0	8,115.0	2,267.0		
1948	10,363.0	8,026.0	2,337.0	$ .58	$ .78
1949	9,964.0	7,712.0	2,252.0	.57	.74
1950	9,926.0	7,597.0	2,329.0	.56	.73
1951	9,546.0	7,310.0	2,236.0	.62	.82
1952	9,149.0	7,005.0	2,144.0	.66	.87
1953	8,864.0	6,775.0	2,089.0	.68	.89
1954	8,651.0	6,570.0	2,081.0	.66	.87
1955	8,381.0	6,345.0	2,036.0	.67	.88
1956	7,852.0	5,900.0	1,952.0	.70	.91
1957	7,600.0	5,660.0	1,940.0	.72	.93
1958	7,503.0	5,521.0	1,982.0	.76	.92
1959	7,384.0	5,459.0	1,925.0	.80	.95
1960	7,118.0	5,249.0	1,869.0	.82	.97
1961	6,919.0	5,029.0	1,890.0	.83	.99
1962	6,700.0	4,873.0	1,827.0	.86	1.01
1963	6,518.0	4,738.0	1,780.0	.88	1.05
1964	6,110.0	4,506.0	1,604.0	.90	1.08
1965	5,610.0	4,128.0	1,482.0	.95	1.14
1966	5,214.0	3,854.0	1,360.0	1.03	1.23
1967	4,903.0	3,650.0	1,253.0	1.12	1.33
1968	4,748.8	3,535.4	1,213.4	1.21	1.44
1969	4,595.8	3,419.4	1,176.4	1.33	1.58
1970	4,522.6	3,348.1	1,174.5	1.42	1.64
1971	4,436.3	3,275.1	1,161.2	1.48	1.73
1972	4,373.4	3,227.7	1,145.7	1.58	1.84
1973	4,336.7	3,169.0	1,167.7	1.73	2.00
1974	4,388.9	3,074.7	1,314.2	2.25	2.43
1975	4,342.1	3,025.5	1,316.6	2.43	2.60
1976	4,375.9	2,999.2	1,376.7	2.66	2.81
1977 4/	4,126.4	2,969.1	1,157.3	2.82	3.00

1/ Hourly wage data are not available prior to 1948. 1948-57: data are for July 1; 1958-1976: data are annual averages

2/ 1968-73: Does not include piece-rate workers.

3/ 1948-73: Per hour without board or room; 1974-77: Does not include perquisites, includes all methods of pay.

4/ April 10-16, 1977.

Source: Farm Labor, Statistical Reporting Service, U.S. Department of Agriculture (various issues)

Estimated number of farmworkers subject to the minimum wage provisions of the Fair Labor Standards Act paid less than the minimum wage rates specified in S. 1871 and estimated cost of raising their wages to those rates, January 1, 1978-January 1, 1981

Effective date	Minimum wage rate 1/	Employees paid less than proposed rate		Annual wage bill increase	
		Number (thousands)	Percent	Amount (millions)	Percent
January 1, 1978	$2.65	196	30.6	$124	3.0
January 1, 1979	2.89 2/	198	30.9	95	2.1
January 1, 1980	3.15 3/	242	37.8	112	2.3
January 1, 1981	3.37 3/	242	37.8	103	2.0

1/ Estimate based on proposed changes contained in S. 1871.
2/ Estimated minimum based on 52 percent of average straight-time hourly earnings of production and related workers on manufacturing payrolls.
3/ 53 percent of average straight-time hourly earnings in manufacturing.

Employment Standards Administration
Division of Evaluation and Research
July 29, 1977

Status Report on the
Exemption Studies Mandated by the
Fair Labor Standards Amedments of 1974

Field surveys for the exemption studies were begun early in 1975. Data collection agencies include the Bureau of Labor Statistics, the Department of Agriculture and the Bureau of the Census. Field survey data collection has been completed for many of the exemption studies; survey data collection continues for certain of the industry/occupation exemptions.

Completed reports analyzing the field survey findings, will be forwarded to the Congress as soon as possible, beginning the last quarter of calendar year 1977 through 1978.

STATUS OF EXEMPTION STUDIES MANDATED BY THE FAIR LABOR STANDARDS AMENDMENT OF 1974

FLSA SECTION	STUDY	AGENCY CONDUCTING SURVEY	STATUS	TARGET DATE Preliminary Tabulations	TARGET DATE Completed Report	EMPLOYEES AFFECTED (000)
13(a)(1)	MINIMUM WAGE AND OVERTIME EXEMPTIONS Executive, administrative and professional employees:					
	Private sector	BLS	Field survey completed and data tabulated	Dec. 1976	Sept. 1977	9505
	Public sector	ESA	Data to be obtained from secondary sources			5656
13(a)(1)	Outside sales workers	BLS	Field survey completed and data tabulated	March 1977	Aug. 1977	2016
13(a)(2)	Small retail and service establishments	BLS	Field survey completed and data tabulated	Feb. 1977	Sept. 1977	4819
13(a)(3)	Seasonal amusement establishments	BLS	Field curvey completed; data being tabulated	Oct. 1977	Dec. 1977	97
13(a)(4)	Custom manufacturing in exempt retail establishments	BLS	Field survey completed; data being tabulated	1977		NA
13(a)(5)	Catching and processing fish and seafood		Survey proposals rejected as too difficult by two data collecting agencies; negotiations			
13(a)(6)	Agriculture	USDA	in process with a third agency			142
13(a)(7)	Employees exempt under Section 14	ESA	Field survey completed and data tabulated Report prepared	May 1976	Sept. 1977 Dec. 1976	710
13(a)(8)	Small newspapers	BLS	Field survey completed and data tabulated	May 1977	Dec. 1977	13
13(a)(10)	Switchboard operators of small telephone exchanges	BLS	Field survey completed and data tabulated	May 1977	Nov. 1977	Less than 10,000
13(a)(12)	Seamen on foreign vessels	ESA	Report will be prepared from secondary sources	NA	Oct. 1977	NA
13(a)(15)	Babysitters employed on a casual basis and companionship services*	Census	Field survey completed and data tabulated	April 1976	Oct. 1977	106
	OVERTIME EXEMPTIONS ONLY					
13(b)(1)	Motor carriers	BLS	Field survey underway	June 1978	Dec. 1978	942
13(b)(2)	Railroads	BLS	Field survey completed; data being processed	April 1978	July 1978	563

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STATUS OF EXEMPTION STUDIES MANDATED BY THE FAIR LABOR STANDARDS AMENDMENT OF 1974 (Continued)

FLSA SECTION	STUDY	AGENCY CONDUCTING SURVEY	STATUS	TARGET DATE		EMPLOYEES AFFECTED (000)
				Preliminary Tabulations	Completed Report	
13(b)(3)	Air transportation	BLS	Field survey completed; data being processed	Apr. 1978	Aug. 1978	256
13(b)(5)	Outside buyers of poultry, eggs cream, milk	UDSA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	Less than 10,000
13(b)(6)	Seamen	ESA	Report will be prepared from secondary sources	NA	Oct. 1977	63
13(b)(9)	Announcers, news editors, chief engineers of small radio or T.V. stations	BLS	Field survey completed and data tabulated	Aug. 1977	Jan. 1978	Less than 10,000
13(b)(10)	Sales workers, parts counter workers and mechanics	BLS	Field surveys completed; data being tabulated	Oct. 1977	Feb. 1978	428
13(b)(11)	Drivers, drivers' helpers paid on a trip basis	BLS	Field survey completed and data tabulated	May 1977	Oct. 1977	Less than 10,000
13(b)(12)	Agriculture, irrigation	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	602
13(b)(13)	Farm workers engaged in livestock auction operations	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	NA
13(b)(14)	Country elevators-area of production	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	24
13(b)(15)	Processing maple sap into sugar or syrup	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	Less than 10,000
13(b)(16)	Transportation of farm products or farm harvesting employees	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	NA
13(b)(17)	Taxicab drivers	BLS	Field survey underway	May 1978	Aug. 1978	56
13(b)(20)	Fire protection or law enforcement employees of public agencies with less than 5 employees in specified activity	Census	Field survey completed; data being tabulated	Sept. 1977	Dec. 1977	40

STATUS OF EXEMPTION STUDIES MANDATED BY THE LABOR STANDARDS AMENDMENT OF 1974 (Concluded)

FLSA SECTION	STUDY	AGENCY CONDUCTING SURVEY	STATUS	TARGET DATE		EMPLOYEES AFFECTED (000)
				Preliminary Tabulations	Completed Report	
13(b)(21)	Domestic service live-ins*	Census	Field survey completed and data tabulated	April 1976	Oct. 1977	135
13(b)(22)	Shade-grown tobacco	USDA	Data tabulated	June 1977	Dec. 1977	NA
13(b)(24)	Substitute parents for institutionalized children	BLS	Field survey completed and data tabulated	Mar. 1977	Jan. 1978	NA
13(b)(27)	Motion picture theaters	BLS	Field survey completed and data tabulated	June 1977	Nov. 1977	58
13(b)(28)	Small logging operations (fewer than 9 employees)	BLS	Field survey completed; data being tabulated	Aug. 1977	Dec. 1977	41
	PARTIAL OVERTIME EXEMPTIONS					
13(b)(8)	Hotels, motels, and restaurants	BLS	Field survey completed; data being tabulated	Aug. 1977	Dec. 1978	1484
13(b)(25)	Cotton ginning	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	22
13(b)(26)	Processing sugar beets, sugar beet molasses or sugar cane	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	24
13(h)	Cotton and sugar service employees	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	29
	ADDITIONAL STUDIES					
6(f) and 7(1)	Domestic service employees working 8 hours or fewer or with earnings too low to be covered by Social Security*	Census	Field survey completed and data tabulated	April 1976	Oct. 1977	388
7(k)	Federal, State and local government fire protection and law enforcement employees	Census	Field survey completed; data being tabulated	Sept. 1977	Dec. 1977	666
7(m)	Tobacco handling and processing incidental to auction sale	USDA	Field survey completed and data tabulated	Mar. 1976	Oct. 1977	44

* These three studies will be combined into one report relating to private household workers.

NA--Not Available

The CHAIRMAN. Well, I think we have exhausted all of the things that I wanted to talk about. It certainly has not been an exhausting session; however, it has been refreshing. We are very, very happy to have had you. Thank you.

[Whereupon, at 11:10 a.m., the subcommittee was recessed.]

FAIR LABOR STANDARDS AMENDMENTS OF 1977

MONDAY, AUGUST 1, 1977

U.S. SENATE,
SUBCOMMITTEE ON LABOR OF THE
COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:13 a.m., in room 4232 Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (Chairman), presiding.

Present: Senator Williams.

OPENING STATEMENT OF SENATOR WILLIAMS

The CHAIRMAN. We will come to order.

This morning we continue with our second day of hearings on legislation to amend the Fair Labor Standards Act by increasing the minimum wage.

Last Thursday, the committee heard excellent testimony from Secretary of Labor Ray Marshall. Secretary Marshall strongly endorsed our minimum wage proposal and our proposal to index the minimum wage on the basis of average straight-time hourly wages of production workers in manufacturing.

As I mentioned, his testimony will be most helpful in answering the arguments of those who oppose this legislation.

The Secretary was most helpful in discussing research studies that are underway on the tip credit. He characterized the studies which purport to show that a phasing out of the tip credit will have an adverse effect on the restaurant as "sick chicken" studies. He described how he arrived at that description. The record is colorful with that description. I will not repeat it now.

Well, I will tell you about it, Mr. Meany. It is pretty good.

A large land grant university did a study of sick chickens and after an expenditure of a lot of money concluded that, when chickens get sick, those that linger for a few days have a lot better chance of surviving than those that die right away.

It appears that the studies which purport to show an adverse effect of a phasing out of the tip credit are like sick chicken studies. They reach the conclusion which they were designed to reach, and do not mean very much.

Now, this morning we are grateful that the president of the AFL–CIO, Mr. George Meany, is our leadoff witness.

As we needed Secretary Marshall's testimony we need President Meany's. We welcome you, Mr. Meany, together with your most able associates in the AFL–CIO.

STATEMENT OF GEORGE MEANY, PRESIDENT, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, ACCOMPANIED BY LANE KIRKLAND, ANDREW J. BIEMILLER, AND RUDY OSWALD

Mr. MEANY. Thank you, Mr. Chairman.

I am here to represent the AFL–CIO and present its views on S. 1871, a bill to amend the Fair Labor Standards Act of 1938. This bill would increase the minimum wage rate under the act, provide for an automatic adjustment in that wage rate, and adjust the credit against the minimum wage which is based on tips received by tipped employees.

Before commenting on the provisions of the bill, I want to stress the urgency of prompt action. The necessity for prompt action is why the AFL–CIO is willing to support something less than what we would like in order to get a bill now.

In early 1977 the AFL–CIO Executive Council urged the Congress to increase the minimum wage to $3 an hour and to include an automatic mechanism in the act which would maintain the minimum wage at 60 percent of average hourly earnings in manufacturing. That recommendation was—and is—fair and reasonable. The minimum wage should not be a poverty wage. It should be a wage that allows a worker to maintain at least a "minimum standard of living necessary for health, efficiency and general well-being."

The Government poverty line, adjusted for increases in the Consumer Price Index, equated to $2.98 an hour in June, 1977—68 cents an hour more than the present minimum wage of $2.50. Each month, minimum wage workers sink further into poverty and the "real" value of their wage is eroded. This state of affairs cannot continue. The minimum wage worker should not be expected to work full time and earn $1,420 a year less than the Government-defined poverty wage. The poverty line is used primarily to identify disadvantaged families who are in need of Government subsidies to survive and the family of a full-time worker should not have to depend on Government handouts.

Mr. Chairman, the AFL–CIO is fully aware that $2.65 an hour, while better than $2.30 an hour, is still below the poverty level. But the AFL–CIO cannot stand by and let the minimum wage worker sink deeper and deeper into poverty. Therefore, we recommend the prompt enactment of S. 1871.

The initial wage floor of $2.65 is less than we would like, but the prospect of bringing the minimum wage above the poverty level in the early 1980's and thereafter through indexing would at long last fulfill the promise made to low-wage workers with the passage of the Fair Labor Standards Act in 1938.

The history of minimum wage legislation clearly demonstrates that, despite the best efforts of the Congress, minimum wage setting has been irregular and unsatisfactory.

Low-wage workers, business, the economy and the Congress will all benefit from automatic minimum wage setting. Workers at the low end of the wage scale will benefit from a system which guarantees that they will achieve and retain an above-poverty wage. Smaller, predictable increases—rather than irregular, one-shot larger in-

creases—will provide greater stability to the wage setting process and thus benefit business. The economy will benefit from maintaining the purchasing power of low-wage workers. And the Congress will save an inordinate amount of time, as past experience with minimum legislation clearly demonstrates.

Mr. Chairman, the idea of tying the minimum wage to general wage levels is not a new idea. An automatic escalator was suggested by the late Senator Taft in the course of the debate on the Fair Labor Standards Amendment of 1949. He asked Secretary of Labor Tobin his reaction to setting the minimum wage at 60 percent of average wages in manufacturing. Secretary Tobin, at that time, did not see fit to proceed on that suggestion. Now we have a Secretary of Labor, Ray Marshall, who is answering Senator Taft positively. In enacting an automatic escalator the Congress will be guaranteeing the low-wage worker a realistic wage floor that will keep pace with general wage trends in the economy.

We also support that section of your bill which would phase out the "tip provision" of the act. No employee should be paid less than the minimum wage and the employer should pay it. An employee should not have to depend on the generosity of customers to earn the basic minimum wage.

We urge the Senate to reject the simplistic, unproven theory that a youth subminimum wage will reduce youth unemployment. Lowering wages does not create jobs, but it does create poverty.

Because minimum wage opponents were placing the onus of high unemployment rates for youth on the Fair Labor Standards Act, a massive study on this subject was undertaken by the Department of Labor in 1970 under the direction of then Secretary of Labor George P. Shultz. The study failed to link youth unemployment to minimum wages.

We especially urge the Senate to reject a subminimum wage for youth on the specious argument that it would "even out" unemployment rates. Such an approach is neither feasible, nor does it make any sense. For the Congress to say to any group of workers—be it youth or blacks or women or Hispanic or Vietnam vets—that the "solution" to their problems is a subminimum wage, is, in my opinion, blatant discrimination.

The proponents of a youth subminimum wage do not deny that it will cause higher unemployment among older workers—from 20- to 24-year-olds just starting out their families, to mothers and fathers fired so that their sons and daughters can be hired at a cheaper rate, and to semiretired workers seeking a few hours work a week to supplement pensions.

The concept of "evening out" unemployment rates means that in order for the teenage rate to be lowered, unemployment rates will have to be increased for other workers. Does the Congress really want to say to teenagers, "The only way to get you a job is to pay you less than the minimum wage and fire an older worker, who may have a family, so that you can be hired"?

Before any subminimum is seriously considered, three questions should be answered:

One. Should the minimum wage be an effective floor under the wages of all workers—as Congress intended in 1938—or should it be an ele-

vator going up or down stopping at different floors depending on the age, sex, race, or employability of any group of workers?

Second. Does the Congress want to manipulate the hiring process by telling employers that teenagers are "cheaper" today? or that "blacks" will be "cheaper" tomorrow? or women? or Vietnam veterans?

Third. Should wages be set on the basis of age, or color, or sex?

There is no factual basis for the notion that low wages generate additional jobs. The payment of subminimum wages instead of minimum wages for existing jobs may well have the opposite effect—less money buying less goods means fewer jobs.

There is a consistent thread which runs through most of the studies on the youth subminimum and, that is, that it would lead to displacement of older workers. A 1975 study by Alan A. Fisher, of California State University, "Adult Disemployment Effects of a Youth Minimum Wage Differential," states:

> The most probable tradeoff of a youth differential of around 15 percent would be giving up something like 500,000 adult jobs for teenage jobs totaling a few hundred thousand more than the number of aduts displaced. Any consideration of whether the long-run exchange would be a net improvement for society must consider the social costs of adult unemployment compared to teenage unemployment, effects on poverty, welfare loads, social adjustment to unemployment, effects on crime, and numerous other related social issues. If the tradeoff were for more teenage jobs, with a one-to-one decrease in the number of adult jobs, a large majority of citizens would probably consider adult unemployment more serious than teenage unemployment and, therefore, reject the switch.

The study done by Prof. Edward M. Gramlich, of the University of Michigan, has been widely quoted in support of a youth subminimum wage, but little attention has been given to his admission that there would be substitution of youth for older workers, at lower wages.

In his testimony before the Subcommittee on Labor Standards of the House Committee on Education and Labor on March 9, 1977, Mr. Gramlich stated:

> I think you will find that, in response to a change in the minimum, that it is very hard to find very large effects on total employment, one way or the other.
>
> I would not want to go on record as saying who ought to get the jobs. The whole question of family responsibilities is a very complex one. I think, probably, it will turn out that adult women have more family responsibilities * * * than teenagers do.

But enacting a youth subminimum wage would put the Congress squarely "on the record" saying teenagers should get the jobs at the expense of older workers.

Consider, for a minute, the question of working women. Two-thirds of all the women in the work force in March 1976 had never married, or were separated, widowed, or divorced, or had a husband earning less than $10,000 a year. It is obvious that these women work because they have to work. Bumping them to make room for unemployed teenagers would further aggravate the unemployment problem for women workers and make a mockery of the "equal pay for equal work" principle.

Government forecasts indicate that the teenage population will decrease over the next 10 years, and that the number of teenagers seeking work will decline. Simultaneously, the number of young adults

will increase by about 7 percent. The net effect of these two trends will be increased unemployment for young adults versus teenagers.

A Government policy which moves teenagers to the front of the hiring line today, because they have the highest unemployment rates, may well have to legislate low wages for young adults tomorrow so that they will be hired first. In short, a subminimum wage is discriminatory, and should be rejected.

Mr. Chairman, S. 1871 is urgent legislation. The working poor cannot wait much longer. They must have an increase in the minimum wage as soon as possible, and a guarantee of an above-poverty wage in the future.

The House Committee on Education and Labor amended H.R. 3744 to include provisions which would extend minimum wage and overtime protection to additional employees. These include:

First. Minimum wage and overtime protection—over 56 hours a week—for employees of concessionaires in national parks, refuges, and forests;

Second. Overtime protection for hotel, motel, and restaurant employees;

Third. Overtime protection for shade-grown tobacco employees;

Fourth. Amending the overtime standards for employees engaged in cotton ginning and for employees engaged in the processing of sugar beets, sugar beet molasses, or sugarcane to provide for a limited 14-week exemption, requiring employees to pay time-and-one-half the regular rate of pay for more than 10 hours per day and 48 hours a week;

Fifth. Minimum wage and overtime protection, with certain exceptions, for employees of conglomerates with gross annual sales or business done in excess of $100 million.

In addition, the House committee bill conforms the provisions in the Fair Labor Standards Act affecting employees in Puerto Rico to the new provisions affecting employees on the mainland. I recommend that S. 1871 be amended so as to improve the minimum wage and overtime standards applicable to employees in Puerto Rico, and to include the House committee's other amendments.

We would also hope that the committee will urge prompt and effective enforcement of the entire Fair Labor Standards Act. A recent press release of the Department of Labor announced that violations of FLSA affected an alltime record number of workers during the first half of fiscal year 1977. In this 6-month period, almost $59 million in back wages were found owed to 328,000 workers.

An improved minimum wage law, combined with effective enforcement, will be good for the working poor, the economy, and for a country which is concerned with human rights and dignity.

Thank you.

The CHAIRMAN. Thank you very much, Mr. Meany. Excellent.

You answered all the questions that I had thought of asking you, but there are one or two aspects which we might discuss briefly.

The argument is heard that this minimum wage increase will be inflationary. True, it is at the very lowest level of paid employment that we are dealing with, but if you raise the minimum, the ripples go through the entire economy, and we have a great inflationary surge.

I wonder how you can clarify in the minds of those who feel the great dangers of an inflationary bulge of great dimension, how you can help them see the light?

Mr. MEANY. The only place that might have a tiny, minute effect, will be on food prices, because these people do not buy automobiles. Most of the money that they get in their envelopes go for food. If they have a little more money to buy an extra loaf of bread, I do not know whether that is inflationary or not. But certainly there will be no effect on gasoline price, no effect on used cars, and all the other things that go into the survey, because they do not buy those things. They do not have them.

But the basic thing here, and this is basic to the whole minimum wage law, is that these people should be brought into the consumer spending stream and made a legitimate part of the American economy.

There is something basically wrong, Mr. Chairman, with our economy when tens of thousands of families, with the head of the family working full time, must draw welfare funds in order to live.

Now, Secretary Califano the other day made a report that they had an investigation and they found 216 employees of the Department of Health, Education, and Welfare, full-time employees, who are residents of the District of Columbia—just confined to the District of Columbia—who were drawing welfare payments.

Now, he said that 105 of them were guilty of fraud, and should be handled by the law. In other words, they were cheating. But he said that 111 of them were legally entitled to welfare payments. Now, that meant that 111 full-time employees of the U.S. Government, in the Department of Health, Education, and Welfare were legitimately entitled to relief, to welfare, because of the fact they did not get enough money in their pay envelopes to live on.

Mr. Chairman, that to me indicates that something is basically wrong, when we have to expect tens of thousands of people, able and willing to work, working full time, and we have to take taxpayers' money to support them, and really it poses the whole question about inflation.

What do these things do to inflation?

What happens to people on welfare?

What happens to people drawing unemployment insurance?

What happens to people drawing money for which they do not produce anything?

That is basically inflationary, and nobody seems to worry a great deal about it. But just imagine the U.S. Government, right here in Washington, in one department, that has over 100 people who are drawing welfare from the District of Columbia, and now there may be others drawing welfare in other parts of the country, and to me this represents something is basically wrong.

I think one of the steps that we have to take, and this was basic to what we did back in 1938 when we started off with 25 cents an hour, we said try to bring them in where they can buy something, where they can become part of, or make their contribution to, the mass purchasing power which we must have if this economy is to survive.

Now, this business of subminimums, to me, Mr. Chairman, is a little bit ridiculous. You take the figures. If you are going to take care of teenagers, because of high unemployment rate, you must remember

that the teenagers' rates will always be higher than others, because one day they are in school, one day they are not considered in the work force, and the next day they are. Every year there are tens of thousands that are in the work force one day and are unemployed on that very day.

To say you must even this thing out because of their high rate, well, teenagers from 16 to 19, their unemployment rate is 18 percent. That is way above the national average. So we say well, we have to give them a special rate. This will increase their employment opportunity.

However, black teenagers are 40 percent. So what do we say, all right, we give white teenagers a special rate, but then we give black teenagers a special, special, super special rate. Now we will take white teenagers, they have 18-percent unemployment, so to help them out we bring their wages down to 85 cents, and how low do we bring the black wages? And what do we do with Vietnam veterans? Vietnam veterans today, who are between 20 and 24 years of age, just above the teenage limit, they are 18-percent unemployed right now.

Are we going to say to those fellows, well, we will take care of you. we will do something special for you, we are going to give you a special low rate, so you can work for a lower wage, alongside of an adult getting a higher rate. We are going to do that as a great favor.

Do you think that the black communities will consider this a great favor?

People affected here are mostly blacks and women. Is this a great favor to women, with all this talk of equal rights, human rights, and are we going to say to women, well, we are going to take care of you, we are going to give you a subminimum wage?

It runs contrary to the whole basic philosophy of the minimum wage law, which was to bring people in so they could become part of the mass purchasing power that we have to have to sustain this economy.

The CHAIRMAN. That is an eloquent response to the question.

There was one other aspect of the ripple, however, that we will hear a lot of. That is this thing the economists call compression. You raise the minimum, that puts pressure on those who are at wages above the minimum, evidently there is some kind of feeling that they have to have a percentage of separation between various levels of skill.

What is your response to that?

Mr. MEANY. That is pure theory, Senator. There is no basis for that. That is the "iffy" stuff you get from economists. Will they look at the lower end, no, not in my book. They might look at the executive who is drawing $80,000 a year, but they will not look at the little guy. They will say, God bless him, give him some more.

The CHAIRMAN. That always baffled me, when we went to $2.30 a few years ago, how could that be a bargaining club for skilled workers. They do not relate to that rate. They know what they feel their skill is worth, and it does not relate to the Howard Johnson dishwasher.

Mr. MEANY. This hourly rate is so small, compared to what a highly skilled worker gets that they just pay no attention to that at all. These people are not in our unions. He is not sitting in the same union with the fellow who is now getting $2.30 an hour and to say that he suddenly decided he wants his wages raised because this fellow went up 25 cents, that is ridiculous, just ridiculous.

The CHAIRMAN. I felt that it must be, but you know the economists sitting in their book lined offices can work out these compression models, and it looks as though for every increase, 10 cents down here, it goes all the way up to the highest skills in the land.

Mr. MEANY. These economists have more "ifs"—I listened to this fellow, Charlie Schultze. He talks about the economy, and he said, "if," "provided, however," "now if this"—he reminds me of the old cartoon I saw one time. It shows two hoboes coming down the road, two "knights of the road" they called them, and they are chatting, and one says to the other, "Very nice morning. We could have ham and eggs this morning—if we had some ham—and if we had some eggs."

Charlie tells you what will happen "if", "if," and "if."

Frankly, to me the worst thing in this whole economy, from my point of view, is the unemployment that we have in the inner cities. This 39- and 40-percent rate, to me, is the worst thing. Because it means there are a lot of young people in our inner cities, who are growing into manhood and adulthood, without ever knowing what a job is. They do not even think about a job. It does not enter into their thoughts. They get up in the morning, and they do not think about going to work. It is hopeless; there is not any work.

To me this is the real tragedy in our whole economic picture. This is worse than general unemployment. This is worse to me than inflation. The fact that we have these young people in our inner cities, and I do not know whether you have been up to the South Bronx to see that, and to think that this is going on.

Frankly, there is a lot of talk, but nothing is being done. The conditions are getting worse. South Bronx, if you took a helicopter over it, you would think you were flying over Guatemala after an earthquake.

This is in what I think is the greatest city in the world, the city of New York, and unemployment, with young whites and young Puerto Ricans and young blacks, all looking at a hopeless world.

I want to tell you, we cannot preserve our way of life unless we do something to change that situation. And to have people come in here, running businesses that they want the Federal Government to subsidize, when the fellow comes in here and says I cannot afford to pay more than $2 an hour and keep my business going, he is saying, in effect, to the Federal Government, he is saying to this Congress, you have to subsidize me. I will get my profit. I will live quite well, but I cannot employ these people and pay them. I will have to go out of business. You cannot let me go out of business. So you have to subsidize me.

How do you subsidize me? Well, you pay welfare, you are subsidizing that employer, and there is something wrong with this free enterprise system when this has to happen.

The CHAIRMAN. That kind of businessman is joined by many of these economists who say to pay the subminimum and supplement that with welfare, with negative income tax, with this Government subsidy approach.

Mr. MEANY. Do you not think, Mr. Chairman, that somewhere down the line, there has to be an end to this constant increase in welfare?

I am for taking care of the people on welfare, but as relation between those who work and those who draw welfare checks, in other

words, the number of people working, compared to those on welfare, gets less, what is the end of that road? What is the end of that road?

You do not produce wealth by having a wand.

The whole history of humanity, is that wealth is produced by work, people working and producing something, doing something with their hands and minds, doing something useful and producing something useful. The idea that we can take care of the problem of the greedy employer, who does not want to pay these wages, by subsidizing his employees, through welfare—that is absolutely ridiculous. That runs contrary to our whole concept of a free society.

The CHAIRMAN. For those who are honestly concerned about youth unemployment, there is a new law that will be in effect, the same time as this legislation is scheduled to become effective. This is the youth employment training program. It is misguided to think that a youth subminimum would accomplish what I believe this new law will.

This makes a lot of sense.

Mr. MEANY. That will be helpful, I am sure.

The CHAIRMAN. You can recall, Mr. Meany, and it is amazing to me, how many people are believers in the CCC that were not even born then. There is an historical record that is so favorable about CCC's of the thirties, that even those born since know it, and have given us a great deal of support for the conservation program in the youth employment law.

I heard one just this morning on the radio, driving in to work, a fellow that was a steward in the CCC's and developed the chili formula, the recipe, and now he is a very famous chili guy around town. I have forgotten his name. But we see that more and more, people whose lives were made because there was a job for them in the CCC's when there was no other job anywhere.

Do you remember Johnny Grogan?

Mr. MEANY. And there was also the National Youth Administration. I remember the head of the thing, a fellow that had the same name as yours, a fellow named Aubrey Williams. Lyndon Johnson was in the NYA and ran the Texas end of it, as a very young man.

The CHAIRMAN. Well, you remember John Grogan——

Mr. MEANY. Very well.

The CHAIRMAN. I did not know until after I narrowly defeated him in the primaries, that he was in the CCC's, and it made his life. He was some kind of guy.

Mr. MEANY. It took young people off the streets, and put them into fresh air.

The CHAIRMAN. This is a way to deal with the problems, and not have them below poverty level.

Mr. MEANY. You know, the business associations opposed the CCC. They oppose this, and they have opposed everything. From the beginning of the NAM, they have just opposed anything and everything that they felt might help people if it might cost a dollar in taxes. They were against all these things, as they are now against the minimum wage.

The CHAIRMAN. This is a moment of good fortune for our committee that you are here, and providing us with such compelling reasons to pass this bill on minimum wage.

Because of the opportunity we have to have you here, are there any other matters you would like to address yourself to?

Mr. MEANY. No; I think the testimony I have given covers our opinion. I just want to point out that the arguments that have been used and is now being used the same way—is it going to cost jobs, is it going to be inflationary? When we passed the Fair Labor Standards Act in 1938, there was a provision that the Secretary of Labor would have to meet these arguments by reporting on it, and over the years the Secretary of Labor has periodically reported on this question of minimum wage unemployment. We were told back in 1938 that if we had a 25-cent minimum, there would be widespread unemployment, and that argument is still being used. That argument has always been refuted by the record.

I am quite sure that our experience on this increase in the minimum wage will provide the same picture.

The CHAIRMAN. I judge by the fact that our other members are not here, that they knew they were going to agree with you and therefore, did not have to be here to question you.

Mr. MEANY. I am quite sure of that. Thank you.

The CHAIRMAN. Thank you very much.

We are honored now to have Clarence Mitchell as our next witness.

Clarence, we need your heart and mind, your wisdom and your strength in our business again, and our business is raising this minimum wage. We are grateful indeed that you are a part of our early record.

Thanks for being here.

I understand you were side-by-side, or back-to-back with Mr. Meany on the House side.

STATEMENT OF CLARENCE MITCHELL, CHAIRMAN OF THE COALITION FOR A FAIR MINIMUM WAGE

Mr. MITCHELL. That is right.

Thank you very much, Mr. Chairman.

I was interested in the colloquy between you and President Meany, when you were discussing the CCC. I happened to have been around in that period, and saw what it did for so many young people.

As I look around and see the different things that came out from under CCC and WPA, it is a reminder that many of these great advantages that we have today in the way of parks, and in the way of projects that prevent erosion to shoreline and other public advantages, really came out of those operations in that period.

I would predict that, as you have already said, the full operation of the Youth Employment Act may very well produce advantages in this country that 50 or 75 years from now people will be thankful that persons like yourself, President Meany, and others, including the President, who also is behind the youth employment program, had the vision to get the country started in that direction.

With your permission, Mr. Chairman, I would like to submit my statement for the record and summarize it as I go along.

The CHAIRMAN. It will be included at the conclusion of your testimony, you may proceed.

Mr. MITCHELL. As I indicated by the printed testimony, I am the chairman of the coalition which was formed for the purpose of bring-

ing in the right thinking and the sensitive minded people of our Nation to show our concern for the increase in the minimum wage.

A copy of the statement describing what has the declaration made by that group when it first met, and the principal members, plus on the back of it a rundown on the organizations, it attached to my testimony.

I believe it is important to point that out, because those who have formed this coalition are no fly-by-night people in our country. They are persons who, at every time when the bugle blows reveille for the Nation to arise and begin action on social programs, these are the people who are first to line up.

I am pleased that they have done it, because it looks like we are faced with a horrendous kind of opposition.

Back in the days when you were a Member of the House, Mr. Chairman, you will recall that there were those of our opponents on civil rights legislation who would have all kinds of delaying tactics to prevent action on, first, adoption of the bill after it came out of the Rules Committee, and subsequently every time we got down to the wire, a new type of delay, even to the point of calling for engrossed reading, a reading of an engrossed copy of the bill, which would take forever for the purpose of delaying it, and that same kind of tactic is the reason why this legislation was not on the House floor last week.

It came out of committee in time to be acted on, and many of us who are for this legislation had anticipated that it would be on the floor by Thursday of last week. But if you had been over there, you would have heard the bells ring for quorum calls, and people perfecting the Journal, all sorts of little pettifoggery, for the purpose of preventing this great legislation from reaching the floor.

That is why it seems to me that the American people need to know that those of the type that make up this coalition may very well be the reason why it gets passed, because at present the persons in opposition are thinking of so many exotic ways of trying to frustrate it.

I think the vigor with which Mr. Meany is in this field, and the efforts of so many high minded individuals will win in the end. But I think the American people should know that there is an effort to settle this issue in a destructive way without regard to its merits. Those who want to sabotage this bill do not have the logic, and the troops, in my opinion, to do it, so they are resorting to technicality, subterfuge, and assassination of legislation, in order to get their way.

I have marked in my testimony one of the favorite things that came out of the first coalition meeting. It is at the bottom of the page, and it is a quote from President Meany. We had a meeting of our coalition over in the Rayburn House Office Building, very well attended. Mr. Meany made this statement that says unlike the European trade union movement, the American trade union movement is concerned about the people who are at the bottom of the ladder, in a way that we hope to get them into a more acceptable wage structure.

Mr. Meany pointed out, and his quote is there to speak for itself, that he had many conversations with the European trade unionists who feel that if you keep paying low wages, and permit low wages to be paid, this will drive people into the labor movement.

Our American labor movement does not move on that philosophy. It recognizes that even though people are not members of organized

labor, those who know how to bargain collectively, and those who know how to represent interests of the people should be out trying to better the lot of their fellow workers who are worse off, and I think there was one particularly important line in that quote that I have used, which I like, and use many times in speeches.

He said, it is the principle of our trade union movement that American workers, whether they belong to a union or not, must not be compelled to work for slave wages in the richest nation on Earth. And anything less than a decent living wage is a slave wage.

I believe the members of our coalition wholeheartedly subscribe to that philosophy. I think that is a reason why we have held together, and why we are trying very hard to get this across.

I have provided to the committee a transcript of that first meeting which we had of the coalition, because it gives in their own words the peoples' statements about why they thought this was important.

The CHAIRMAN. We do not have that.

Mr. MITCHELL. I guess maybe it must be one of those slip-ups. At any rate, I will see the committee gets it.

The reason I referred to it is that I did not know whether because of its volume that the committee would want to include it in the record, or have it as an exhibit. But I did want the committee to have it.

The CHAIRMAN. When we look at it, we will see whether we can include it in the record. If not, perhaps selected areas can be and should be included in the record.

Mr. MITCHELL. I have pointed out in my testimony that we who are part of the coalition, Ms. Dorothy Height of the National Council of Negro Women, Mr. Meany, and Monsignor Francis J. Lally, who was substituting for Monsignor George Higgins and Father Hesburgh, they are vice chairmen of the group.

We went to visit the President on May 16 to discuss this matter with him, in that the President at that time was for a lower figure. I think it is important, and follow up on the points you were making, Mr. Chairman, a while ago about people receiving relief, and Mr. Meany's rejoinder that you do not want the people to be on relief when they can work, although if they need it, they should have it.

That was one of the points that we emphasized with the President. We pointed out that in the present arrangement of things, the original proposal of the President would have left millions of workers, including some 3 million people already making the minimum wage of $2.30, below the poverty level.

In that situation, of course, they had to receive supplementary help in the form of various kinds of public assistance. We also pointed out that the number included approximately a half million black people, who although making $2.30 an hour, nevertheless have to receive public assistance.

It seems to me that is a very shortsighted way to engage in improving our economy, because when you add to the existing welfare rolls, made up of people who might, for physical reasons, be unable to work, or for age, or some reasons, when you add that to the number which is really what we must have in the way of relief assistance, add to that people who not only are willing to work, but actually are employed, actually are earning what we say is the minimum wage under the law, yet we have to add to our relief rolls, and undermine the dignity

of those people in some instances, by requiring that they receive welfare assistance, instead of the kind of wage that would be helpful to them.

I like to think that the President paid attention to what we said. He certainly was courteous and very receptive. I like to believe, and indeed I hope, that this played some part in his revision upward of the administration's position.

I would also like to call attention to the kinds of people who have been left out in our previous efforts to improve the minimum wage.

At the time the minimum wage was passed, I was a young man filled with ideals, and the belief that the Government of the United States could reach down and rescue the people that President Roosevelt referred to as being in dire need, and you will recall the famous speeches, about one-third of the Nation being ill housed, and our desire to raise the level of our people in this Nation.

At that time, we were in college, debating questions like whether we should have compulsory unemployment insurance. I am afraid nobody had thought much of a minimum wage, even in those academic circles.

But along came the Government of the United States, and did in fact write into the law of this Nation various kinds of things that protect the poor. But if you study this particular legislation, you will see that the kinds of exemptions that were made in that period had the effect of blocking out literally thousands of white workers who were poor, and black workers.

For example, I used to wonder why people were so eager to see in the logging industry of the South, that the persons cutting the timber were confined to eight-person crews. Well, the reason was that the law provided if there were eight or less, you did not have to pay the minimum wage.

Of course, the great body of individuals working in the cotton industry, in all of its aspects, the agricultural workers, the domestic workers, these are the people who were, even with high idealism, left out of the coverage of this law.

I am pleased to see that the House has corrected that to some extent with amendments, and I earnestly hope that the committee, which already has done a magnificent job in putting this bill together, will add to its bill those amendments in the House which are designed to rescue people like the workers in the sugar industry, and the people in the cotton ginning, who are not now receiving benefits they ought to get.

Another thing I would like to stress is the fact that there is a very unfortunate campaign underway to try to remove the youth of our country from coverage of this legislation.

I can say to you, as a high school person who worked for the magnificent sum of $15 a month when I was in high school, in a place where you did not know whether you were still on the job until after you punched your timeclock—if you arrived, and if your timeclock card was not in the rack, that meant you were fired, and you did not know from day to day whether you were still on the job, you worked for $15 a month, and I am pleased to say I think I worked just as hard as any adult in that place.

I think even though I was a high school student, I had earned the same kind of salary that adults were paid, and I believe that the only reason I did not get it was because they knew it was cheaper to hire these young people to do the same thing that adults were doing.

We heard that argument advanced now. We hear my very good friend, Andy Brimmer, who is now formerly of the Federal Reserve Board. Andy is himself a refutation of the kind of argument that he is proposing in favor of subminimum for youth.

I point him out because I know that a large amount of propaganda apparently has emanated from his office, and has been sent to the Members of Congress for the purpose of urging that youth be paid a subminimum wage, and indeed, raising a question about whether the passage of minimum wage legislation will result in the diminuation of jobs.

The reason I think it is sad that Andy has permitted himself to be used in this way is, I happen to be aware of how he got on the Federal Reserve Board. President Johnson called me over to the White House one day and he said, I have done something that you did not ask me to do, and Roy Wilkins did not ask me to do, and he went down the list, Whitney Young and others, who were always bothering him about trying to get blacks in different things, and Justices, and he said none of you asked me to do this. This is something I thought of doing myself. He just said he had put Andy Brimmer on the Federal Reserve Board. He then explained why.

He said, you know, white people of this country know that you have got good black lawyers. They know that you have got good schoolteachers, and doctors, and people in professions, but I want them to know that you have also got people who are capable in the business field. That is why I have appointed Dr. Brimmer to this post.

I was very grateful, and am still grateful to the President for that. I am still respectful of Mr. Brimmer's ability. But I am grieved and shocked that such a person who was the victim of disadvantages because of race, would become a part of the movement in this country which is designed to say that we want to have the youth of the Nation working for less money because it takes time for them to learn how to do the jobs, and all sorts of untrue justifications.

What are we talking about when we talk about young people on the job? If we exclude things like apprentice training, where they are regulated by agreements with labor organizations, if we exclude things which are legitimately instructional programs for long-range qualifications, we get down to the real heart of what constitutes the people that employers are talking about, that they want to pay a subminimum wage to.

It is things such as frying the hamburgers in the restaurants, the roadside restaurants. It is the dishwashers who are scraping the uneaten food off plates, and putting plates in dishwashing machines, and it is hundreds of thousands of people who are doing detail jobs which are so elementary in their requirement, that one could go on the job at 8 o'clock in the morning and by noon be sufficiently proficient to do anything that was required.

To say that it is some great liability for employers to have to take young people, and therefore they should have an exemption in order to pay these young people a subminimum wage, is really just a fairy

tale. This is no time in human history to go back to "Grimm's Fairy Tales," or any other kind of compilation of literature of that kind.

I think we have got to recognize that if we want our youth to be responsible, if we want our young people to see that the system gives them opportunities on which they can build better lives, let us do it in a fair way. Let us not chisel on them, as some of those who are proposing the subminimum wage do try to do.

The other thing I would like to leave with the subcommittee has to do with the question of tipping. I have never been able to understand the rationale behind the thinking that in order to escape paying a proper salary to an employee, the employer should have an opportunity to check on the tips that the employee receives.

My knowledge of the railroad industry, for example, includes the period when the dining car waiters, pullman porters, redcaps, were paid very little wages, and in some cases, no wages at all, which meant that they had to hustle and carry baggage, prematurely get old from overwork, and in those periods, of course, a lot of people were around to do the various jobs, but there were never enough of them.

Then came the period under the Railway Labor Act and the minimum wage, and other things, when these people were given an opportunity to earn a salary. The employers argued that there had to be some way of keeping track of the tips.

I can think of nothing that was more unpleasant than going into a railroad station and having a redcap give you some little kind of a ticket for which you had to pay money of a stated sum in order that he might have some record of the tips that he received.

I had so many friends who were engaged in those occupations, and most of them would have gotten higher tips really if they had not been required to ask for a stated sum. I think it was a real disservice to them.

By the same token, in the hotel and restaurant industry, well, there was a little statement in one of these magazines about a maitre d', and it said the maitre d' ushered the customer to his table with a look of insolence that he was attempting to mask as servility. All of this is characteristic of the hotel and restaurant industry.

I think when you walk into the hotels and restaurants, they know where they are going to take you, and they know you are going to pay more than the thing is worth, that you get. If you sometimes get there before the food is put on the table, you would not have much of an appetite, because of the way it is handled. And yet they try to pose doing such a great service for the customer. That is the industry, which in my judgment is most offensive with respect to tips.

I see these mothers who are trying to make extra money for the family, out working as waitresses, and I see young people trying to put themselves through college, working extra hard, because they think it might mean a tip. And I admit, and I do not know whether it is because I am gullible, or because I am naive, but I have to admit that when somebody, young, old, white, black, woman, man, whatever, gives the kind of service that makes you feel at home, makes you feel that you have received friendly treatment, I have to just give them a good tip.

In fact, I would not dare walk out of the place without giving a tip, and a generous one, not that I can afford it. But I think that that is

what one ought to do as a kind of response to good will, spread by the person working for you.

Now, I have never, in all my life, intended, when I give the person working for me a tip, that this money should go to the employer. In fact, that is somebody I do not even know, do not even see.

So it seems to me it is a terrible irony, and downright dishonesty to say that the person, because of efficiency, because of pleasant manners, because of consideration for the guest, or customer, has earned a tip, that this has to be put in the pot and figured as part of that individual's salary.

To the extent that your bill, and that which was supported by your colleagues, attacks this problem, I think it is very good and a very needed thing. I hope it will become the law.

I have to be honest and say if left to my own devices, I am not in possession of all the information which led to this arrangement, I would think that it ought to be abolished almost retroactively, and some of these people who have chiseled on these employees ought to pay back some of the money, which in my judgment they got unjustly. But those who know more about the industry than I do, have indicated that what is being proposed in this legislation is an important step forward, and will, in the end give the people the dignity that they deserve.

So I am happy to say I hope that they are right. I hope that it does become the law.

Then we, of course, have the question of tying the increase in wages to indexing. That is a very complicated subject, and I am sure there will be economists who will be coming in and give various theories on how this should be done or not be done.

My problem with these things is that everybody in this country, high and low, at some point faces a situation where the wage that the individual receives does not keep up with the cost of living.

It so happens that I served on a commission for the American Bar Association which had as its purpose raising the salaries of people in the judicial branch of the Government. I do not know how important my membership was, but I certainly do not regret the time I spent on that, because it seemed to me that the judiciary was in a bad way in this country because people were not getting what they should have.

I think it would be a terrible disservice if people tried to prevent Members of Congress from getting wages that are necessary. But in all these things people have to wait on a lot of maneuvering and disruption before they can get relief. Sometimes they had to wait for something that may be relief, really does not help them when they get it, they are in hock to just about everybody under the Sun.

So, in my judgment, the inclusion of the indexing feature, which will make it automatic that people get these increases when it is indicated, that it is time for an increase, is a valuable, a very valuable contribution, and right in line with your usual way of doing things, Mr. Chairman.

I want to congratulate you. I want to thank you for allowing me to testify this morning.

The CHAIRMAN. As I indicated at the beginning, your testimony is indispensable to us and I would like to express the gratitude of the committee again, Mr. Mitchell.

Mr. MITCHELL. Thank you.

The CHAIRMAN. We appreciate everything you have presented.

Your full statement, of course, will be in the record.

I have here a copy of Mr. Andrew Brimmer's study entitled "Minimum Wage Legislation and Employment, a Review of the Literature and Implications for the Restaurant Industry."

What are your thoughts on this study? This is evidently targeted on one industry.

Mr. MITCHELL. Correct. Unfortunately, and I have sent him a formal reply. Although it is based only on one industry, but from my recollection, only in the State of California, which he himself admits may or may not present conclusive evidence, but it is stated in such a way as to appear to have nationwide implications, although in fact it does not. It is stated in such a way to give the impression that it is an attack, successful attack on minimum wage, although it is not.

Although it is not said, the thesis generally is that as you increase the minimum wage, this means the people lose jobs. Also that it is in the interest of young people to have them paid a subminimum wage.

I say, and I am sorry to say it, but I believe it, I believe that the reason this kind of thing gets so much currency is because those who are interested in promoting it rely on two things. They rely on the fact that Mr. Brimmer is an expert, and also that he is black, and therefore they will assume this gives greater credibility to it. It is a real disservice to the minimum wage question.

The CHAIRMAN. I think we are going to have to have some interpretation on Mr. Brimmer's observations. I wish I had seen this. We have had it, but I have not had time to review it.

For example, the monopsonistic model—as you can see, we have got lines crossed, dotted, an interesting geometric pattern.

Mr. MITCHELL. Double crossing of lines.

The CHAIRMAN. Double crossing. Well, I cannot even pronounce some of these. I think he created that word, "monopsonistic."

Are you familiar with monopsonistic effect of the minimum wage on the teenage employment in the restaurant industry?

Mr. MITCHELL. If they could put it in plain English, I think that what he is trying to say is that if you have young people paid a fair wage that they really have earned, then because monopolies control the salary scale this means that, first, not as many of them as might be employed will be employed, and those fortunate enough to get on the job will be quickly fired.

I think that is what he means. I would translate that in terms of big restaurant chains, and other types of operations where by setting a policy up in New York, you can affect the lives of people down in New Mexico or Florida. I think that is what he is trying to say.

I would say that is no justification for paying people less money than they justly earn. I think the answer is what you referred to earlier, youth employment legislation, and if necessary, let us pump more money into our economy to give these young people jobs. It is much cheaper, and I can tell you from my personal observations, it is much cheaper to put money from Government, private industry, whatever it is, into the employment of young people than it is to take them through judicial process when they have run afoul of the law, and subsequently go to jail.

It is much cheaper to do it the constructive way.

The CHAIRMAN. The youth subminimum argument which is being advanced is being portrayed as helpful to teenagers; however, I cannot recall any group or individual who is concerned about young people as a daily matter, and associate with them in organized activity, or just as a matter of pattern in their own practice of interest and concern, that has come from that day-in-and-day-out community of concern for young people, advancing this subminimum idea.

It seems to be coming from businesses whose business is business, rather than the lives of these individuals.

Mr. MITCHELL. That is so true.

The CHAIRMAN. In advancing their business, they express their concern for a particular group that they would like to employ, they say, but they can only do it if they can pay less than the minimum wage. But we have not had youth groups, I am just trying to recall whether we have had any of them that have thought this through to the point where they are advocating that they be paid less for the same work than someone who is over the age, whether the age is 18 or 19 or 20?

Mr. MITCHELL. It is just to the contrary, Mr. Chairman.

On the back of the material that I have presented, I listed the organizations that make up this coalition, and the youth people have been heavily represented. They have presented statements, and they have all taken the position they are opposed to the subminimum wage.

I think we must not underestimate the ingenuity of those who exploit youth. Because I am sure that they will be able to dredge up some people who will profess to be youth spokespeople, and probably come in here supporting getting young people out from under the minimum wage.

It is just like in every kind of thing, I am sure, if you looked around, you could find people lauding the virtues of prostitution, and mugging, and other kinds of things, and there will also be somebody who will come in and say that is great for the country, but I think in this instance those who are really responsible leaders of youth, who have studied this problem from the standpoint of the impact that it has on young people who want to work, sometimes to support their families, or for other causes, those are the main studies of that kind, including our own NAACP youth group. They are against this subminimum.

I would caution further the possibility that there may come in some people from minority groups, as we have seen in some of the recent hearings we have had around here, who will try to advocate the subminimum on the grounds that this is a great service to whatever it is they have in the way of business.

I would say that anybody who has to pay what amounts to a subminimum slave wage to people in order to employ them ought not to be in business.

The Government of the United States should not be a party to subsidizing people who, because of whatever the reason, cannot afford to pay a decent wage, and, therefore, seek an exemption.

The CHAIRMAN. Mr. Meany dealt with this subminimum, if carried to its logic, through other areas of high, high overaverage unemployment, various groups of people that are unemployed at higher than the average, that if there is a logic to deal with subminimum for youth because they represent a very high level of unemployment, that same logic, I imagine, could be extended to other groups.

Mr. MITCHELL. As a matter of fact, I agree with you, and have that in my testimony. I think that the statistics show that the number of unemployed as a whole is termed in the millions, and I think that the number unemployed among teenagers is something in the neighborhood of 1,700,000. The exact figure is in my testimony.

When you look at the percentages, and say that you have got 7, 10, whatever percentage the figures show, of unemployment in this country, and a much higher figure among teenagers percentagewise, that seems like a terrible problem, as indeed it is bad, but we are talking about something that is sort of half horse and half rabbit.

You know, the traditional rabbit stew—first you have got half horse and half rabbit to make the rabbit stew. That is what is here. The Labor Department says that there are nearly 7 million people unemployed, and 829,000 of the group in the 16- and 17-year-old category.

If you followed the logic of those who say that you ought to lower the wage in order to give these young people jobs, the same thing could be applied to the hiring of blacks, Spanish-speaking, women, whatever you can think of, and indeed, that has historically been the pattern in some of these employment places, that as a condition of employment those who have been at a disadvantage and excluded before, they say we have got to pay these people less wages, because they are not trained, we have to spend a lot of time training them. So it really is a dangerous argument, so say that because young people are younger chronologically, maybe not as experienced as some of the older ones, therefore you should pay them less money.

I think it is only a matter of time, if you ever start doing that, maybe they will start paying economists less money. Indeed, that might be one way of breaking up this phalanx of economists who are always on hand to try to destroy things that would move this country forward in the interest of the people.

The CHAIRMAN. At any rate, if you take one group and give them subminimum, and even if that group is employed because of the wage that is below the level established under law, there will be an adverse effect on another group——

Mr. MITCHELL. Exactly.

The CHAIRMAN. So we will have rippling unemployment.

Mr. MITCHELL. Right.

The CHAIRMAN. Then you get into that hardest question of all; why should we use a subminimum, which we can also call subpoverty level wage, to distribute employment, and redistribute unemployment?

Mr. MITCHELL. Exactly. That is a beautiful phrase—redistribution of unemployment, so there will be enough misery to go around all over the Nation.

I think there is some little scheme cooking over in the House, which I hope will be defeated when the bill gets to the floor, under which it was proposed that there would be payment of a subminimum for youth for 6 months, and thereafter they go to the regular wage.

That would be what I would call a revolving door process of hitting at unemployment. You would get in for 6 months, and be out at the end of 6 months, and somebody else would come in.

The CHAIRMAN. I had a question on that, and you have given the answer. Certainly, so many of these types of jobs are not ones that require 6 months of training for excellence and then permanent em-

ployment; but rather, they are jobs that require less demanding skills, and, thus, it would be a "revolving door" situation. I see your point here, Mr. Mitchell.

Mr. MITCHELL. I think, Mr. Chairman, you are younger than I am, and you may not remember this, but we had a lot of fiction in the industry about how difficult it was for people to learn how to do different kinds of jobs. One of the notorious places in which wages paid were low, and justification was that it took people a long time to learn, was in the textile industry. Then we got into World War II, and we had to use every type of laborer—semiskilled labor for skilled jobs. A study was made by two distinguished gentlemen, and I think they came from either Westinghouse or Western Electric, and they were dollar-a-year men in the Government. Their names were Dooley and Deakes, they were two of my favorites.

They were very good at meeting problems, they produced a study which showed that there was no job in the textile industry, no matter how complicated, that you could not train somebody to do in 6 months.

I saw myself in great industries in your State, where we had to get to the point, in the shipbuilding—we had to train welders fast, and train them in about one-fourth of the time that previously you were supposed to train them, because if you had not done it, you could not have gotten the ships out of the shipbuilding yards over in Camden, or if you look at the machine industry, particularly machine tool industry, we had to break those jobs down so the people who would be tool and die makers could learn in a shorter period of time.

We succeeded in doing that. In my judgment, there is a great deal of fiction about how long it takes people to learn to do almost anything, and in emergencies where we now find ourselves, in an emergency, it seems to me we have got to use our ingenuity and get these people ready.

A distinguished anatomist, a friend of mine, Dr. Cobb, made a speech the other day, and said we only use about one-eighth of the human brain in solving our problems and doing our thinking. I wish we could invoke the use of the additional one-eighth on this problem, so we would be using two-eighths, because it is my opinion that if we just have a little bit more ingenuity, exert a little more intelligence, we will be able to meet these problems without confining the young people, or anybody else, to a subminimum wage level.

The CHAIRMAN. We have been especially impressed within the last few months, as we are dealing with employment programs here, of the lack of orderly census of job needs, job opportunities that are out there in the country, a true comprehensive and reliable census of skilled jobs that are going begging, because the skills are not available.

This is one of the ways we can use a little bit more of our ingenuity, I think, than we are using now.

Mr. MITCHELL. I think you are so right. As a matter of fact, one of my classmates, Monroe Dowling—I am afraid Monroe has retired by now, but he was a career man in the employment service, and my recollection is that at one time he was head of the employment service in

the State of New York—but nevertheless, has been for a long time in the employment service, and I used to hear from Monroe almost every day a couple of years ago, about how, if we did the very thing you have just suggested, Mr. Chairman, of collating the available jobs, matching them up against available people, if necessary, transporting them to places where jobs are available, assuming they were willing to go, we could make a substantial reduction of our unemployment.

That is one of the things which I hope at some point Congress will address itself to, and the fact you mentioned it gives me hope it will be done.

The CHAIRMAN. I had a new one Saturday, at home in New Jersey, new as it was applied to the particular area, we are frequently called on to give character references for applicants to medical school, to law school, to other professional schools, or to institutions of higher learning.

Saturday, I could see there is a new demand upon us for character references to vocational schools. Here is a young man who wants to be an auto bodyman, and cannot get into vocational schools. You know, there is one thing that I know we need, perhaps more than some lawyers, and that is auto and body mechanics.

Mr. MITCHELL. That is true.

The CHAIRMAN. So again the census, and then the training availability.

Mr. MITCHELL. And mobility.

The CHAIRMAN. That is, of course, what CETA and some of these other programs are all about.

Mr. MITCHELL. And the mobility. As you know, when we needed people for the aircraft and shipbuilding industry, we had a lot of unemployed down in West Virginia, and North Carolina, and other places, so we made it possible for those people to come up to New Jersey in order to work. When we needed people in the shipbuilding industry on the West Coast, the Kaiser Co. took trainloads of people out to Portland, Oreg.

I saw the population of Portland, Oreg., double in almost 6 or 8 months. The black population out there rose from about 1,900, when I was there the first time, to about 24,000 in a matter of a year, all because we were seeing that people got to where the jobs are.

I think that is what we have got to do now. I do not mean to say you must go, but I think we have to make it possible for them to go in an orderly way if they want to be properly housed, and get fair wages when they do go there.

The CHAIRMAN. We can do that without subsidizing industry with a subminimum wage below poverty level.

Mr. MITCHELL. Exactly.

The CHAIRMAN. Thank you very much.

Mr. MITCHELL. Thank you very much.

[The prepared statement of Mr. Mitchell and other material supplied for the record follows:]

STATEMENT OF CLARENCE MITCHELL, CHAIRMAN
OF THE COALITION FOR A FAIR MINIMUM WAGE
BEFORE THE SUBCOMMITTEE ON LABOR OF THE
SENATE COMMITTEE ON HUMAN RESOURCES
MONDAY, AUGUST 1, 1977 - 9:30 A.M.
ROOM 4232 DIRKSEN SENATE OFFICE BUILDING

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE, I AM CLARENCE MITCHELL, CHAIRMAN OF THE COALITION FOR A FAIR MINIMUM WAGE. IT IS A GREAT HONOR TO REPRESENT THE PERSONS AND ORGANIZATIONS THAT COMPRISE THE COALITION. WE SUPPORT S. 1871, A BILL TO AMEND THE FAIR LABOR STANDARDS ACT OF 1938 TO INCREASE THE MINIMUM RATE UNDER THAT ACT, TO PROVIDE FOR AN AUTOMATIC ADJUSTMENT IN SUCH WAGE RATES, AND TO ADJUST THE CREDIT AGAINST THE MINIMUM WAGE WHICH IS BASED ON TIPS RECEIVED BY TIPPED EMPLOYEES.

AT THE OUTSET, I WISH TO CITE A QUOTATION FROM THE REMARKS OF PRESIDENT GEORGE MEANY OF THE AFL-CIO AT A COALITION MEETING HELD ON APRIL 27, 1977. THIS QUOTED PORTION OF PRESIDENT MEANY'S REMARKS EMBODIES THE SPIRIT OF OUR COUNTRY IN ITS CONCERN FOR THE DEPRIVED PEOPLE OF OUR LAND. IT IS AS FOLLOWS:

> "...THEY HAVE THE QUAINT IDEA IN EUROPE -- OUR EUROPEAN TRADE UNION BROTHERS -- THAT THE LOWER THE WAGE IS, THE MOST INCENTIVE THERE IS FOR THE WORKERS TO JOIN A UNION.
>
> WELL, FRANKLY, WE NEVER LOOKED AT IT THAT WAY. WE DON"T LOOK ON THIS ISSUE AS A TRADE UNION ISSUE OR EVEN A POLITICAL ISSUE. THIS IS AN ISSUE THAT AFFECTS PEOPLE, IT AFFECTS ECONOMIC HEALTH AND THE SOCIAL WELL BEING OF THE ENTIRE COUNTRY. AND IT'S THE PRINCIPLE OF OUR TRADE UNION MOVEMENT THAT AMERICAN WORKERS, WHETHER THEY BELONG TO A UNION OR NOT, MUST NOT BE COMPELLED TO WORK FOR SLAVE WAGES IN THE RICHEST NATION ON EARTH. AND ANYTHING LESS THAN A DECENT LIVING WAGE IS A SLAVE WAGE."

IT IS MY OPINION THAT THE MEMBERS OF OUR COALITION AND MANY OTHER PEOPLE IN OUR COUNTRY, WHOSE EARNINGS ARE SUBSTANTIALLY HIGHER THAN THE PROPOSED INCREASE IN THE MINIMUM WAGE, WOULD MAKE A STATEMENT CLOSELY PARALLELED TO THAT OF MR. MEANY.

I WOULD LIKE TO OFFER EITHER FOR INCLUSION, IN TOTO, OR AS AN EXHIBIT (AS THE COMMITTEE SEES FIT), THE TRANSCRIPT OF THAT MEETING WHICH WAS HELD ON APRIL 27. I MAKE IT AVAILABLE BECAUSE IT CONTAINS EXPRESSIONS OF SUPPORT FOR A FAIR MINIMUM WAGE. THESE EXPRESSIONS ARE THE VERBATIM VIEWS OF A NUMBER OF DISTINGUISHED PERSONS WHO ATTENDED THAT MEETING. ON MONDAY, MAY 16, 1977, MR. MEANY, MS. DOROTHY HEIGHT, PRESIDENT OF THE NATIONAL COUNCIL OF NEGRO WOMEN, MONSIGNOR FRANCIS J. LALLY, DIRECTOR OF THE UNITED STATES CATHOLIC CONFERENCE DEPARTMENT OF SOCIAL DEVELOPMENT, AND I PRESENTED THIS TRANSCRIPT AND OTHER INFORMATION TO PRESIDENT CARTER IN A CONFERENCE AT THE WHITE HOUSE. I HOPE AND BELIEVE THAT THIS EVIDENCE OF CONCERN BY A BROAD SPECTRUM OF THE AMERICAN PEOPLE WAS HELPFUL TO THE PRESIDENT AS HE REVIEWED HIS POSITION ON INCREASING THE MINIMUM WAGE.

THE FAIR LABOR STANDARDS ACT IS ONE OF THE MOST IMPORTANT CORNERSTONES OF SOCIAL LEGISLATION ENACTED IN THE TWENTIETH CENTURY. MINIMUM WAGE LEGISLATION ASSURES THOSE WORKERS WHO ARE THE MOST EXPLOITED THAT THEIR LABOR WILL BE RECOMPENSED AT NO LESS THAN AN APPROPRIATE MINIMUM.

S. 1871 PROMISES SOME 4-1/2 MILLION WORKERS THAT THEIR WAGES WILL BE ADJUSTED NEXT JANUARY TO $2.65 AN HOUR, AND THE FOLLOW-

ING JANUARY TO A NEW MINIMUM BASED ON 52% OF AVERAGE HOURLY EARNINGS IN MANUFACTURING, AND IN JANUARY 1980, TO 35% OF THAT AVERAGE PAY. LESS THAN 5% OF THE TOTAL WORK FORCE WILL BE AFFECTED BY THIS NEW WAGE FLOOR, BUT MORE THAN 10% OF ALL BLACK WORKERS WILL RECEIVE INCREASES. IN SPITE OF THE CIVIL RIGHTS ACT OF 1964, A DISPROPORTIONATE NUMBER OF BLACKS ARE STILL IN MANY LOW-PAYING JOBS. THE CIVIL RIGHTS ACT OF 1964 LEGISLATED EQUALITY IN WAGES, REGARDLESS OF RACE, SEX, RELIGION OR NATIONAL ORIGIN, BUT NOT A GUARANTEE OF A DECENT MINIMUM WAGE, WHICH IS IN THE PURVIEW OF THE FAIR LABOR STANDARDS ACT.

WHEN THE FAIR LABOR STANDARDS ACT WAS FIRST ENACTED IN 1938, IT PROTECTED WORKERS MAINLY IN THE GOODS-PRODUCING SECTORS OF THE ECONOMY, SUCH AS MANUFACTURING AND MINING. THESE SECTORS OF THE ECONOMY AT THAT TIME HIRED DISPROPORTIONATELY MORE WHITES THAN BLACKS. THE SERVICE AND FARM SECTORS OF THE ECONOMY WERE EXCLUDED FROM COVERAGE UNTIL THE 1960'S. EXTENDING THE COVERAGE TO LAUNDRIES, RESTAURANTS, NURSING HOMES, FARMS AND HOUSEHOLD DOMESTICS HAS FINALLY ASSURED THESE WORKERS AT LEAST A PART IN THE AMERICAN PAY SYSTEM. MANY OF THESE WORKERS INCLUDED IN THE 1960'S ARE BLACKS AND WOMEN.

IN 1938, THE CONGRESS SET THE MINIMUM WAGE AT 25 CENTS AN HOUR, INCREASING 20% THE NEXT YEAR TO 30 CENTS, AND INCREASING ANOTHER 33% TO 40 CENTS OVER THE NEXT FEW YEARS. THAT MINIMUM WAS A GREAT BOON TO THE WORKERS COVERED BY THE LAW IN THOSE DAYS, BUT IT FAILED TO PROVIDE PROTECTION FOR SERVICE WORKERS.

JUST PRIOR TO THE 1966 FLSA AMENDMENTS, SOME LAUNDRY WORKERS IN THIS COUNTRY WERE STILL BEING PAID LESS THAN 40 CENTS AN HOUR, THE MINIMUM WAGE AUTHORIZED BY CONGRESS IN 1938. IT IS NOT JUST A

COINCIDENCE THAT LAUNDRIES HIRE A LARGE NUMBER OF BLACKS.

CONDITIONS PRIOR TO 1966 WERE NOT MUCH BETTER FOR DISHWASHERS IN RESTAURANTS, MAIDS OR PORTERS IN HOTELS, AIDES AND ORDERLIES IN HOSPITALS, OR FARMHANDS ON LARGE CORPORATE FARMS. THE 1966 AMENDMENTS EXTENDING COVERAGE TO MOST OF THESE WORKERS ASSURED THEM -- MANY OF THEM BLACKS, HISPANICS AND OTHER MINORITIES -- THAT THEIR WAGES MUST BE NO LESS THAN THE MINIMUM FOR ALL OTHER SECTORS OF THE ECONOMY. THAT ASSURANCE FOR FARMWORKERS IS ONLY NOW COMING TOWARDS FULL FRUITION FOR THOSE EMPLOYED ON LARGE FARMS. S. 1871 ASSURES CONTINUED PROGRESS.

IN 1974, THE CONGRESS TOOK ONE MORE IMPORTANT STEP BY EXTENDING MINIMUM WAGE PROTECTION TO MOST DOMESTIC WORKERS. WITHOUT THAT PROTECTION MANY HOUSEHOLD DOMESTICS CONTINUED TO LABOR FOR WAGES, AND UNDER CONDITIONS THAT WERE REMINISCENT OF THE RECONSTRUCTION ERA A CENTURY EARLIER. MINIMUM WAGE PROTECTION FOR THESE WORKERS WAS LONG OVERDUE.

TODAY MOST SEGMENTS OF THE ECONOMY ARE COVERED BY THE FAIR LABOR STANDARDS ACT EXCEPT FOR STATE AND LOCAL GOVERNMENTS, WHICH WERE REMOVED FROM COVERAGE AS A RESULT OF A SUPREME COURT DECISION (LEAGUE OF CITIES VS. USERY). THE BILL REPORTED BY THE HOUSE COMMITTEE WOULD MAKE SOME MINOR IMPROVEMENTS IN EXTENDING THE PROTECTIONS OF THE LAW. IT WOULD PROTECT ALL EMPLOYEES OF LARGE CORPORATIONS WITH SALES OF MORE THAN ONE HUNDRED MILLION DOLLARS. IT WOULD LIMIT THE SEASONAL OVERTIME EXCEPTIONS FOR WORKERS ENGAGED IN SUGAR PROCESSING, COTTON GINNING, AND HARVESTING SHADE-GROWN TOBACCO. IT WOULD PROVIDE MINIMUM WAGE AND SOME OVERTIME PROTECTION TO CONCESSIONAIRE EMPLOYEES IN NATIONAL PARKS, AND FULL OVERTIME PROTECTION FOR HOTEL, MOTEL AND RESTAURANT EMPLOYEES. IT WOULD BRING THE SPECIAL PROVISION OF THE

ACT DEALING WITH PUERTO RICO INTO LINE WITH THE NEW PROVISIONS OF THIS BILL. WE URGE THE SENATE TO ADOPT THESE SAME EXPANSIONS OF PROTECTION AS ARE INCLUDED IN THE HOUSE BILL (HR 3744), REPORTED BY THE COMMITTEE.

WE URGE THE SENATE TO SPEEDILY ADOPT THE NEW MINIMUM WAGE PROVISIONS AS SET FORTH IN S. 1871. WE URGE THE SPEEDY ADOPTION OF THESE NEW RATES, NOT BECAUSE THESE NEW RATES ARE ADEQUATE, BUT RATHER THAT THEY ARE A SIGNIFICANT STEP TOWARDS A DECENT WAGE FLOOR. ALSO, S. 1871 CONTAINS ASSURANCES THAT THE WAGES OF THOSE AT THE BOTTOM OF THE ECONOMIC LADDER WILL KEEP PACE ON A REGULAR BASIS WITH THE WAGES PAID GENERALLY IN THE NATION'S BASIC INDUSTRIAL SECTOR.

A JOB IN OUR COUNTRY SHOULD PAY A DECENT WAGE. THE PREAMBLE OF THE FAIR LABOR STANDARDS ACT REFERS TO THE MAINTENANCE OF A MINIMUM STANDARD OF LIVING "NECESSARY FOR HEALTH, EFFICIENCY, AND GENERAL WELL BEING OF WORKERS." IN FAIRNESS, IT MUST BE SAID THAT S. 1871'S PROVISIONS FOR A $2.65 AND HOUR RATE LEAVES THE FULL-TIME WORKER BELOW WHAT THE U. S. CENSUS BUREAU REPORTED AS THE POVERTY LINE FOR A FAMILY OF FOUR IN 1975. IF S. 1871 STOPPED THERE, MANY OF US WOULD OPPOSE IT. HOWEVER, S. 1871 ALSO INCREASES THE MINIMUM WAGE TO 52% AND THEN 53% OF AVERAGE HOURLY EARNINGS. THIS ASSURES THAT THE GAP WILL BE CLOSED AND A FULL-TIME YEAR-ROUND WORKER CAN LOOK FORWARD TO ACHIEVING A WAGE ABOVE THE POVERTY LINE.

THE MEDIAN INCOME FOR BLACK HOUSEHOLDS CONTINUES TO LAG BEHIND THAT OF WHITES. ACCORDING TO THE CENSUS BUREAU, THE MEDIAN INCOME OF WHITE HOUSEHOLDS WAS $12,340 IN 1975, WHILE THAT FOR BLACK HOUSEHOLDS WAS $7,408 - OR 60% OF THAT FOR WHITES. THIS MEANS THAT HALF OF ALL BLACK HOUSEHOLDS HAD A TOTAL INCOME IN 1975 OF LESS THAN $7,408.00

THE LABOR DEPARTMENT REPORTS THAT FOR A MINIMAL BUDGET, SLIGHTLY MORE THAN THE OFFICIAL POVERTY LINE, A FAMILY OF FOUR NEEDED $10,041 IN THE FALL OF 1976. BUT THE AVERAGE BLACK FAMILY ISN'T EVEN AT THAT LEVEL. THAT WOULD REQUIRE EARNINGS OF $5 AN HOUR.

IN AN ANALYSIS OF THE CHARACTERISTICS OF LOW PAID WORKERS, IT HAS BEEN ESTIMATED THAT ONE QUARTER OF ALL BLACK WORKERS ARE PAID LESS THAN $3 AN HOUR. OF THE THREE MILLION WORKERS WHO ARE PAID JUST THE PRESENT $2.30 AN HOUR MINIMUM, SOME 17% OR 510,000 ARE BLACKS -- EVEN THOUGH BLACKS ONLY REPRESENT 11% OF THE WORKERS COVERED BY THE FAIR LABOR STANDARDS ACT.

IN 1976, 48% OF WHITE WORKERS HELD BLUE-COLLAR, SERVICE, OR FARMWORKER JOBS. IN THAT YEAR, 68% OF THE BLACKS AND HISPANIC HELD BLUE-COLLAR TYPE (SERVICE AND FARMWORKER) JOBS. THESE ARE THE JOBS BASICALLY AFFECTED BY MINIMUM WAGE LEGISLATION.

ACCORDING TO THE LABOR DEPARTMENT FIGURES, SEVEN OUT OF EIGHT OF THOSE UNEMPLOYED DURING JUNE WERE AGE 18 OR OVER. THE UNEMPLOYMENT RATES ARE HIGH FOR 16 AND 17 YEAR OLDS. HOWEVER, THEY ACCOUNT FOR ONLY 829,000 OF THE NEARLY SEVEN MILLION UNEMPLOYED. THE PLIGHT OF THE ADULT UNEMPLOYED IS MEASURED IN MILLIONS OF WORKERS, ALTHOUGH THEIR UNEMPLOYMENT PERCENTAGES ARE SUBSTANTIALLY LOWER THAN THAT FOR TEENAGERS.

WE ARE PARTICULARLY DISTURBED BY THOSE WHO SUGGEST THAT THERE SHOULD BE SOME SORT OF SUBMINIMUM WAGE FOR YOUNG PEOPLE BECAUSE THEIR UNEMPLOYMENT RATE IS HIGHER. BASED ON THAT LOGIC, BLACKS WHO

EXPERIENCE A HIGHER UNEMPLOYMENT RATE THAN WHITES (13.2% BLACKS VERSUS 6.3% WHITES IN JUNE 1977) WOULD ALSO BE PAID A SUBMINIMUM. AS A MATTER OF FACT, THE WHITE TEENAGE UNEMPLOYMENT RATE WAS NOT SUBSTANTIALLY HIGHER THAN THAT EXPERIENCED BY ALL BLACK WORKERS (16.1% WHITE TEENAGERS VERSUS 13.2% OF ALL BLACKS). BLACK TEENAGERS SUFFERED A HORRENDOUS UNEMPLOYMENT RATE OF 39.4%. THE SOLUTION TO THIS PROBLEM IS NOT TO PAY TEENAGERS LESS, BUT TO REMOVE THE VESTIGES OF DISCRIMINATION IN OUR SOCIETY AND PROVIDE MORE JOB OPPORTUNITIES. MOST OF US IN THE COALITION WERE STRONG SUPPORTERS OF THE NEW YOUTH EMPLOYMENT BILL THAT CONGRESS JUST PASSED. WE BELIEVE THAT IT WILL BE A MAJOR ELEMENT IN PROVIDING NEW JOB OPPORTUNITIES FOR YOUNG PEOPLE THROUGHOUT THE COUNTRY. THIS IS THE ANSWER TO TEENAGE UNEMPLOYMENT -- MORE JOBS, NOT LOWER WAGES.

THE TYPES OF JOBS THAT PAY THE MINIMUM WAGE ARE THE LEAST SKILLED JOBS IN OUR SOCIETY. THEY ARE THE JOBS THAT PEOPLE -- MEN, WOMEN, TEENAGERS -- CAN PERFORM WITHOUT ANY TRAINING. A WORKER HIRED IN THE MORNING IS PRODUCING BY THE AFTERNOON. THE JOBS ARE USUALLY SIMPLE, REPETITIVE, WITH LITTLE OR NO RESPONSIBILITY OR TRAINING NEEDED TO PERFORM THE TASKS.

A DISHWASHER IS TOLD TO SCRAPE THE FOOD OFF THE PLATES AND PLACE THE DISHES IN THE DISHWASHER. THE TASK IS LEARNED IN A FEW HOURS AT MOST. THE LAUNDRY WORKER PLACES THE CLOTHES IN THE WASHERS, AND IRON SHIRTS -- TASKS REQUIRING NO MAJOR LEARNING PROCESS. A DIME STORE CLERK IS TAUGHT HOW TO RING-UP THE CASH REGISTER AND READ THE PRICES -- AND GOES RIGHT TO WORK. THERE IS NO GREAT TRAINING PROCESS FOR MINIMUM WAGE JOBS, AS THERE IS FOR HIGHLY SKILLED JOBS OF MACHINIST OR COMPUTER PROGRAMMERS OR BOOKKEEPERS.

ALL OF THESE JOBS CAN BE FILLED BY A TEENAGER OR AN ADULT. IF A SUBMINIMUM WAGE IS ESTABLISHED FOR TEENAGERS, IT WILL JUST MAKE IT THAT MUCH MORE DIFFICULT FOR ADULTS TO COMPETE WITH TEENAGERS FOR THESE JOBS. ONE OF THE BASIC PRINCIPLES THAT MANY OF US HAVE FOUGHT FOR THROUGHOUT THE YEARS HAS BEEN EQUALITY. THAT INCLUDES EQUAL PAY FOR EQUAL WORK, WHETHER THE PERSON PERFORMING THE WORK IS BLACK OR WHITE, MALE OR FEMALE, YOUNG OR OLD. PAY SHOULD BE EQUAL FOR THE JOB PERFORMED -- AND NOT BASED ON THE RACE, SEX, OR AGE OF THE WORKER.

WE ALSO ENDORSE WHOLEHEARTEDLY THE PROVISIONS IN S. 1871 WHICH WILL PHASE OUT THE SO-CALLED TIP CREDIT OVER A PERIOD OF 5½ YEARS. SUPPORT IS BASED ON THE FACT THAT EMPLOYEES IN THE FOOD SERVICE AND LODGING INDUSTRIES ARE SOME OF THE MOST NEGLECTED WAGE EARNERS IN OUR COUNTRY. INDEED, IF YOU PUT ASIDE THE RHETORIC AND THE CONSTANT REFERENCE TO EMPLOYMENT IN A HANDFUL OF EXCLUSIVE RESTAURANTS AND HOTEL DINING ROOMS IN SOME OF OUR MAJOR CITIES, IT IS SHOCKING TO SEE THAT NEXT TO FARM WORKERS, FOOD SERVICE WORKERS ARE THE LOWEST PAID WAGE EARNERS IN THE UNITED STATES. CLEARLY HERE, WE ARE DEALING WITH AN ISSUE WHICH AFFECTS POOR WORKING PEOPLE.

OTHERS MUCH MORE KNOWLEDGEABLE IN THE DETAILS AND COMPLEXITIES OF THE TIP CREDIT WILL EXPLORE WITH THE COMMITTEE ALL OF ITS RAMIFICATIONS. THE TIP SYSTEM IS OBJECTIONABLE BECAUSE IT FORCES THE EMPLOYEE TO CURRY FAVOR IN ORDER TO MAINTAIN A DECENT STANDARD OF LIVING. TIPS ARE NOT WAGES. THEY ARE A GIFT FROM A CUSTOMER TO THE PERSON WHO PROVIDES SERVICES. THEY SHOULD NOT BE CONVERTED BY THE LAW INTO A GIFT FROM CUSTOMERS AND THE EMPLOYEES TO THEIR EMPLOYERS.

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Coalition for a Fair Minimum Wage

Room 602 • 815 16th Street, N.W. • Washington, D.C. 20006 • (202) 637-5372

DECLARATION FOR A FAIR MINIMUM WAGE

A fair minimum wage combined with effective enforcement is the best way to improve conditions of the working poor. Our government should act to achieve an above-poverty wage floor for working people.

Workers earning the prevailing minimum of $2.30 per hour are 61 cents below the level needed just to bring them to the federal poverty level income for a family of four. In fact, an increase of 53 cents an hour is needed just to restore the buying power lost since 1974, when the minimum wage law was last amended.

We, the undersigned, are convinced that America cannot afford to relegate millions of its citizens to economic peonage. Full-time workers need and deserve a living wage for the work they do.

We respectfully urge both the Administration and the Congress to provide for a decent minimum wage and to index future increases to insure that minimum wage workers will rise above, and remain above, the poverty level.

Only then will America fulfill the promise made to low-wage workers with passage of the Fair Labor Standards Act. A just society can do no less.

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Leadership Conference on Civil Rights

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National Council of Negro Women

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National Conference of Puerto Rican Women

Roy Wilkins
NAACP

Douglas A. Fraser
United Automobile Workers

Participating Organizations

AFL-CIO
A. Philip Randolph Institute
Amalgamated Clothing and Textile Workers Union
Amalgamated Meat Cutters and Butcher Workmen
Amalgamated Transit Union
American Baptist Churches, USA National Ministries
American Coalition of Citizens with Disabilities
American Council of the Blind
American Federation of Musicians
American Federation of Teachers
American Jewish Congress
American Parents Committee
American Postal Workers Union
American Veterans Committee
American Women's Clergy Association
Americans for Democratic Action
Asociacion Nacional Pro Personas Mayores
Bakery & Confectionery Workers International Union
Board of Church and Society, United Methodist Church
Building Trades Department, AFL-CIO
Center for Community Change
Center for National Policy Review
Christian Methodist Episcopal Church
Church of the Brethern
Church Women United
Coalition for Black Trade Unionists
Coalition of Labor Union Women
Communications Workers of America
Concerned Seniors for Better Government
Congress of Italian-American Organizations
Consumer Federation of America
Federation of Organizations of Professional Women
Friends Committee on National Legislation
Frontiers International, Inc.
Frontlash
Food and Beverage Department, AFL-CIO
Graphics Arts International Union
Hotel and Restaurant Employees' and Bartenders' International Union
Insurance Workers International Union
International Association of Iron Workers
International Association of Machinists
International Brotherhood of Electrical Workers
International Brotherhood of Painters & Allied Trades
International Brotherhood of Teamsters
International Chemical Workers Union
International Ladies' Garment Workers Union
International Printing & Graphic Communications Union
International Typographical Union
International Union of Bricklayers & Allied Craftsmen
International Union of Electrical, Radio and Machine Workers
International Union of Operating Engineers
Iota Phi Lambda Sorority
Japanese-American Citizens League
Jewish Labor Committee
Labor Council for Latin American Advancement
Laborers' International Union
Leadership Conference of Women Religious
National Alliance of Postal & Federal Employees
National Association for the Advancement of Colored People
National Association of Community Health Centers
National Association of Human Rights Workers
National Association of Negro and Professional Women's Clubs
National Association for Puerto Rican Civil Rights, Inc.
National Association of Real Estate Brokers
National Association of Social Workers
National Bar Association
National Black Sisters' Conference
National Catholic Conference for Interracial Justice
National Center for Urban Ethnic Affairs
National Coalition for Hispanic Mental Health and Human Services Organizations
National Conference of Catholic Charities
National Conference of Puerto Rican Women
National Congress of Hispanic-American Citizens
National Consumers League
National Council of Catholic Laity
National Council of Catholic Men
National Council of Catholic Women
National Council of Churches
National Council of Jewish Women
National Council of Negro Women
National Council of Senior Citizens
National Education Association
National Farmers Union
National Federation of Licensed Practical Nurses
National Federation of Settlements and Neighborhood Centers
National Jewish Community Relations Advisory Council
National Office for Black Catholics
National Organization for Women
National Post Office Mail Handlers Union
National Rural Housing Coalition
National Student Lobby
National Urban League
National Women's Political Caucus
Network
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Service Employees International Union
Sisters of St. Joseph
The Newspaper Guild
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Union of American-Hebrew Congregations
Union of Orthodox Jewish Congregations of America
United Association of Plumbers and Pipe Fitters
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United Farm Workers
United Mine Workers
United Paperworkers
United States National Student Association
United Steelworkers
Upholsterers' International Union
Washington Research Project
Women's Equity Action League
Women's Lobby
Workmen's Circle
Young Women's Christian Association

Coalition for a Fair Minimum Wage

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Chairman:
Clarence Mitchell

Co-Chairpersons:
Dorothy Height
Rev. Theodore M. Hesburgh, C.S.C.
George Meany

Transcript of the Coalition for a Fair Minimum Wage Meeting, April 27, 1977, Rayburn House Office Building, Washington, D.C.

MITCHELL: We are going to get right down to business. We have a statement on why this meeting is being held. We want to make it possible for the working people of this country to go home with a paycheck that will be sufficient for paying the rent, sufficient for buying groceries without having to go to the welfare department for a supplement, and will be sufficient so when kids go to school they won't have to put newspapers in the bottoms of their shoes to cover up the holes or live in fear of creditors rushing in on them to take away the ordinary necessities of life. One person who can address herself to that question and who has much personal knowledge of this need will speak first: Miss Dorothy Height, a long time battler for human decency, head of the National Council of Negro Women, but also a leader in so many other organizations that it would take the rest of the day to ennumerate them.

HEIGHT: Thank you. I'm glad to have an opportunity to say something today in behalf of a fair minimum wage. While I am president of the National Council of Negro Women that has an outreach to some four million women, today I want to speak of the importance not only of this coalition of 27 national groups but the importance of the kind of coalition we are seeking to cement here today, because without it the goals that we seek certainly cannot be achieved. As I look at the outreach of some four million women, I am always aware that predominantly we are among those women who are the least protected and the poorest paid; women who are part of the working poor. Yet, whenever an incsease in federal minimum wage is proposed, there are a number of myths that begin to make the rounds.

These myths have been proved inaccurate time and time again, but they are nevertheless repeated, year after year. The myths that concern me the most have to do with both women and teenagers. Somehow, women and youth are treated as secondary workers. There are questions about why women work. The reason women work is because they have to support themselves and their families. The fact is that there are nearly 10 million women in the workforce that have never been married, and they are the full support not only for themselves but for families. In many parts of our community, one out of every four of our families is supported by a woman.

When you look at the 20 percent of the women in the workforce who are the sole support for their families, and look at a minimum wage that already is below the national poverty level, you can understand why the poorest families in the United States are those headed by women. And no matter what those women do, they still remain at the same point.

Nearly 10 million women have husbands who earn about $10,000 a year or less, and when those women work they are working not for luxuries but to get such things as an education for their children, to pay off the mortgage, or for transportation and child care.

I have some figures from New York City -- you know, the Big Apple -- and this is what it said in 1973 about women heading households: White women earned in that year $4,671; white males $13,209. Those who are described as "non-white excluding the Hispanic" earned $4,259, and the males, $9,261. In the Hispanic community the females earned $4,326, and the males, $8,315. Follow that pattern out and you will see that it remains very consistent for women in terms of annual earnings for full-time work in relation to men, and when you look at what the Department of Labor Statistics show you will see that all women -- despite the fact that there are women now who have moved into every level that is open for men -- the fact still remains that women as a group are below all men as a group, and at the lowest -- the bottom of the bottom -- is the non-white woman and the non-white teenage girl.

Everyone needs a decent wage, and we're not saying this is something of women versus men; what we're saying is that we need to work for the kind of full employment economy where both men and women have decent jobs. But we have to start with the facts and realize how many women are caught now in those lowest-paid jobs.

Another myth has to deal with teenagers, and it gets very difficult because I find sometimes even the best people of goodwill, like my companion on the plane here this morning, try to convince me that it is very bad to think about giving the same kind of wages to teenagers. Despite the fact that Mr. Nixon's Department of Labor studied the effects of minimum wage increases on teenager unemployment and came to the conclusion that it is "difficult to prove any direct relationship," the myth still persists. But it is a fact that, with minor exceptions, teenage unemployment has gone down after every minimum wage increase.

There is a deeper issue, a philosophical and a moral one. The argument that a lower minimum wage might induce employers to hire teenagers is not without some foundation. After all, business likes to hire someone who is cheaper. But what would it cost to have a subminimum wage for teenagers? It would mean more unemployment for their fathers and mothers, who also work in minimum wage jobs. In other words, it seems to me that we are compounding our problem when we take that kind of course and fail to recognize that it is often important for the whole family to have teenagers also earning a decent wage.

There is no group in the whole population more aware of teenage unemployment than those who are members of minority groups. And yet we have to ask the question: Is the way to create jobs through lower and lower wages? We do not see where that would get either the family or the country. So where does this stop?

We are here today because the climate in our country has to be changed so that there is a clear determination that what is needed is a fair minimum wage for men and women and teenagers and an opportunity for all to have work. A special subminimum wage for youth or any other group would in reality be discriminatory. And I hope that we will be among those who will try to dispel the confusions of those who feel that they can somehow create a better society by pitting one group against another.

A fair minimum wage which would reach black and white, young and old, male and female, is a goal that we share here together. We can only wish that we had had the strength of this kind of a coalition representing labor and religious groups and civic groups and women's groups -- all kinds of groups -- helping to work at the state level to see that the Equal Rights Amendment is carried in every state. So it is a pleasure for me to be here today to join in signing this declaration for a fair minimum wage and to re-emphasize our support for that most basic of all human rights, which is simply the right to a decent life. Thank you.

MITCHELL: As a footnote, it might be observed that there are some three million people who are earning the current minimum which, of course, is below the poverty level, and of that some 500,000 are black. You can imagine that other minority groups are also in a similar category. I had the good fortune of living in Minnesota where I had a very wonderful friend whose name was Gilligan. We were in all sorts of efforts together. He was a member of the Catholic faith, and I was hoping that when I came down to Washington I would be able to meet somebody named O'Brien or Higgins who might have similar abilities to carry on combat successfully. My good fortune put me in the company of the next speaker, who is formidable as a person and a human being. He is rendered even more formidable by his connections with the Creator as a member of the cloth, and we've been in many fights together in the labor movement and in other civic causes. It's a good thing to be in the company of Monsignor George Higgins, who will be the next speaker.

HIGGINS: Thank you, Clarence. If you are relying on my connections with the Creator, I think your cause is lost. You'll have to take another line. I'm substituting for Father Hesburgh, the president of Notre Dame University, who is one of the co-chairmen -- co-chairpersons -- of this Coalition. If you read the spread on Hesburgh in this week's Time magazine, a two-page spread commemorating his 25th anniversary at Notre Dame, you'll know that substituting for him, in Notre Dame language, is like the high school coach out at De Matha substituting for Knute Rockne. But I'm glad to be here as his representative.

Secondly, I hope it will not be out of order if I say a preliminary word of congratulations to the labor movement for having put this coalition together. I do a lot of reading -- some of it helpful, some of it not. I read all the liberal magazines and all the liberal books, and I've had it right up to here with the persistent myth that the American labor movement is interested only in its own people, only those in skilled or semi-skilled trades who are already organized. And yet, every time I turn around in Washington and see people fighting for the cause of the unorganized, the working poor, I find that it is always the labor movement ahead of the parade.

This meeting would not exist without them, and most of the critics in the liberal or radical community who persist in spreading this myth I don't see, as a rule, at meetings of this type. They're busy about other things. So I think the labor movement deserves a great deal of credit for getting us started on this important cause.

If we had time, I would ask you to stop and say a little prayer for Mary Norton who was one of the chief sponsors of the first minimum wage bill. I was fortunate enough to meet her when I came here as a student. And Mary Norton of New Jersey would be happy to see this coalition put together.

Each of us comes out of his own tradition and speaks from that tradition. I speak here this morning in the tradition of my very great predecessor at the Conference, Monsignor John A. Ryan, who was without any question the greatest single figure that the Catholic community has produced in the field of social ethics. I bring his name up only to recall the fact that of the 20 or 25 books that he wrote during his distinguished career, the very first was a book called The Living Wage, written in 1906 -- 71 years ago. I think he would be turning over in his grave if he thought that 71 years later it was necessary to have this kind of meeeting to demand from the Congress and from the Administration a bill which is decent and fair to the working poor of this country. It's almost inconceivable to me. The day before yesterday I had a call from a woman who represents a large Catholic women's organization in the United States. She said she had been asked to lend her name to the coalition. She asked, What's the policy of the National Conference of Catholic Bishops? I said I don't know, I haven't heard it discussed. She said "Will you clear it?" and I said that Monsignor Ryan would die if I went to the trouble of clearing through the bureaucracy my appearance or your appearance in the coalition on behalf of a decent minimum wage. I would consider it indecent to ask anybody what our tradition was, or whether we should proceed and go full steam ahead.

I rise simply as the representative of our Conference, and in my own name, on behalf of simple decency, without going into any refinements of social ethics, to urge the government of the United States to declare once and for all that men and women who toil for a living are entitled to receive a living wage, not the wage that some economists think that they can live on.

I saw a letter in the New York Times three or four days ago from an economist from the University of Virginia. I couldn't believe it. He argued that if we raise the minimum wage, or if we have any minimum wage at all, this will increase the number of illegal aliens in the country because it will deprive American citizens from doing what they want to do and that's to work below the minimum wage. I don't ask you to agree with his logic, because so far as I can see there isn't any. I cite it only as an example of the crude type of logic that some economists use. I don't have any disrespect for the profession, but too many of them have put forth the crudest type of theoretical and illogical arguments to convince people that you really can live on $1.50 an hour or $2 an hour, if you try hard. They've never tried it.

Clarence spoke of the Authority which I am supposed to in some way represent. Well, we'll leave that aside. But there is something from his word to the effect that "a workman is worthy of his hire." And are we to stand silent while our government, or any government, declares otherwise? I have great respect for the President of the United States and wish him well, but in this case I think he is wrong. The President and the Congress have no right to tell any one human being that his efforts or her efforts — the work of his head and his hands — do not entitle him to enough money to keep body and soul together. That's morally indefensible. Regardless of what his economists have advised him to do, I can only assume that the President, being a decent man, must have been misled in this case by people who were arguing vague theoretical economic notions.

How can any person, any man or woman, sit in solemn counsel in this Congress to legislate and rule that 10 million of their fellow citizens are not entitled to the dignity of earning their bread by their own efforts and earn a decent wage?

We say a decent wage. Really, it's shameful to have to stand here and talk about even the highest minimum wage that we could get as being a decent wage. I couldn't live on it, and I'm a single man. I don't know how in the world any family could possibly live on even the highest wage that we are talking about. So there is something about our having to appeal for such a low wage.

Think for a moment what it means to tell a man or woman that their best efforts are worthy of only token rewards, to tell them that their 8 hours a day of labor, 5 days a week, is of so little value to the community that they would have to starve without the charity of supplemental welfare aid from their government.

To say this is to say that they themselves are without worth, that they live by sufferance of their more worthy and better-paid neighbors, that they are not really whole human beings.

We dare not and cannot say such things to millions of our people, or permit these things to be said on our behalf by the Administration or the Congress.

I rise, then, in the name of human decency to urge the government of the United States to declare that men and women who toil for a living are entitled to receive a living wage.

Work is obviously one of the most important of God's gifts to man. I was a boy seminarian during the Great Depression, when I was commuting every day into the center of Chicago, and I still have very vivid memories of seeing what unemployment did to masses of our people then. It's even worse today. There were so many unemployed at that time that at least there was a certain comfort of being in the company of so many others. But today the people we're talking about are watching television and seeing how the rest of us live, and it must be searing to their souls. Men and women need work as they need water, food and shelter. But if their work does not provide that water, food and shelter and all of the other basic necessities of life, what are they to think of their own worth and what are the families and their fellow citizens to think of them?

If today, then, in the year 1977, the Administration and the Congress should legislate millions of their fellow citizens into even worse poverty and doom them to remain in poverty for the rest of their lives for generations to come, then I think 1977 will not be remembered too well by history. And that's why I'm proud to represent Father Hesburgh on this program today, why I'm proud to sign the declaration of support which is on the board here and why I intend to do everything that I can in my work at the Conference to persuade my fellow priests and lay people that I deal with across the country to endorse and subscribe to the principle it expresses. Thank you.

MITCHELL: When Monsignor Higgins mentioned Monsignor Ryan and Mrs. Norton it gave me the opening of my introduction to the next speaker, because while Monsignor Ryan was active and stalwart in the labor problems of this nation he was also committed to civil rights, and it so happens that Mrs. Norton introduced the first fair employment bill when I was quite young.

There has never been a time when the cause of human decency or civil rights which is under that heading needed a friend that this next speaker did not rise and in a formidable way defend what we were trying to do. He supported the earliest efforts which preceded the great March on Washington in 1963. We had a so-called prayer pilgrimage, which turned out about 17,000 people -- we thought that was a big crowd -- and he was instrumental in bringing that about.

In the intervening years, we've had many legislative battles and one of the climactic battles of that kind occurred when we were trying to defend the integrity of the United States Supreme Court. I had the good fortune to be with my friend Andrew Biemiller and our next speaker was in the state of California, but distance did not prevent us from having a common objective. When Andy called him on the phone, he indicated that we would, as we usually do, march together in the defense of the integrity of the Supreme Court of the United States. There has, as I have said, never been a time -- and I predict that there will never be a time -- when the bugle sounds that this great general will not take his place at the head of the troops that are fighting for justice and common human benefits.

So it's a great pleasure and almost an awesome honor to present to you my good friend, President George Meany of the AFL-CIO.

MEANY: Clarence, Monsignor Higgins, Miss Height, our good friend John Dent, ladies and gentlemen. When trade unionists from Europe visit America, and they do quite often, and we talk about a lot of things -- co-determination and other rank socialist objectives -- they often express amazement that the American labor movement supports the minimum wage law -- that we're for a decent minimum wage. They have the quaint idea in Europe -- our European trade union brothers -- that the lower the wage is, the more incentive there is for the workers to join a union.

Well, frankly, we never looked at it that way. We don't look on this issue as a trade union issue or even a political issue. This is an issue that affects people, it affects economic health and the social well being of the entire country. And it's the principle of our trade union movement that American workers, whether they belong to a union or not, must not be compelled to work for slave wages in the richest nation on earth. And anything less than a decent living wage is a slave wage.

That is why the AFL-CIO strongly supports an immediate increase in the federal minimum wage that is above the poverty level. And we just as emphatically support establishment of an automatic mechamism to maintain the wage floor at 60 percent of average hourly earnings in manufacturing.

Today, the families of workers earning less than $2.92 an hour are living in poverty. And there are 10 million workers earning less than that poverty wage. They work 40 hours a week, 52 weeks a year, at lousy, dismal jobs, and still they can't earn enough money to get out of poverty. Many must turn to welfare, food stamps and private charitable institutions to keep their families together. And that is a tragic commentary on America's priorities today.

As you all know, President Carter says the minimum wage should be $2.50 an hour and hereafter pegged at 50 percent of straight-time hourly earnings in manufacturing. This is a tragic commentary on this Administration's priorities. Administration spokesmen say that the minimum wage can't be higher because that would damage business confidence.

Frankly, we're concerned with the confidence, the health and the well-being of low wage workers who must spend every dime that they make on food, clothing and shelter for their families. As a matter of fact, I can't think of a better boost to the confidence of intelligent businessmen than 10 million American workers with a little more money to spend in the marketplace.

Until now the President has been saying to these workers: Business will feel better if you are poverty-stricken. And I happen to think that that is indecent. We can't believe that a President concerned with human rights will not reconsider and view this issue with compassion and concern. But if he doesn't reconsider, then the Congress must do better.

We hope the President will recall that the Chamber of Commerce said in 1938 that a 25-cent minimum wage would lead to economic ruin, unemployment and inflation. Twenty-five cents an hour as a minimum, they said at that time, would ruin the country. Well, we've been hearing the same argument every time we tried to raise the minimum wage.

What are the facts? Well, every time the minimum wage was increased, employment has increased. Minimum wage workers are the victims, not the cause, of inflation. Minimum wage workers didn't sell the grain to the Soviet Union in 1972 which touched off the tremendous increase in food prices in this country. Minimum wage workers didn't raise the price and are not responsible for raising the price of Arab oil. They didn't raise the interest rates; Arthur Burns took care of that. And they didn't plan the economic mess that this nation is now in. But they have to live with all of these decisions.

And what we're saying here today, when we sign this declaration, is a reaffirmation of what Franklin Roosevelt said nearly 40 years ago, and I would like you to listen very carefully to this quotation:

"Any business that depends for its continued existence on the payment of less than a decent living wage should not continue to exist." And he said, "The test of our progress is not whether we add more to the abundance of those who already have much; it is whether we do enough for those who have too little."

It is in this spirit -- the spirit of Franklin Roosevelt -- that we say that under our democratic system no business should be subsidized by being permitted to pay less than a living wage to its employees and compel the community to subsidize those employees, because that's what's happening. We've got millions of people at the minimum wage who are characterized as the working poor, meaning that they work a full week, year in and year out, and must have their income supplemented by welfare of some kind, government or private.

So it's in the spirit ennunciated by Roosevelt of a decent living for all Americans, and with the sincere hope that President Carter will reconsider and meet the test set forth by Roosevelt, that I'm proud here today to sign the declaration for a fair minimum wage on behalf of the AFL-CIO.

With that signature goes our pledge to do everything in our power to bring those minimum-wage workers out of poverty, right now; and our pledge to do our level best to make sure that they will never again slip below the poverty level. It is our sincere hope that everyone in this room will work with us, contribute to the effort and make -- and keep -- a similar pledge. Thank you.

MITCHELL: This is the language of the declaration:

"A fair minimum wage, combined with effective enforcement is the best way to improve conditions of the working poor. Our government should act to achieve an above-poverty wage floor for working people. Workers earning the prevailing minimum of $2.30 an hour are 51 cents below the level needed just to bring them to the federal poverty level income for a family of four. In fact, an increase of 53 cents an hour is needed just to restore the buying power lost since 1974, when the minimum wage law was last amended.

"We, the undersigned, are convinced that America cannot afford to relegate millions of its citizens to economic peonage. Full-time workers need and deserve a living wage for the work that they do.

"We respectfully urge both the Administration and the Congress to provide for a decent minimum wage and to index future increases to insure that minimum wage workers will rise above and remain above the poverty level.

"Only then will America fulfill the promise made to low-wage workers with the passage of the Fair Labor Standards Act. A just society can do no less."

I will take this document and present it to the signers in order.

We will now recognize those who wish to speak in support of what we are trying to do. We have with us Mr. Theodore Mann, Mr. Richard Alatore who has come all the way from California, and we have Mr. Gene Lynch.

MANN: Mr. Chairman, I'm the chairman of the National Jewish Community Relations Advisory Council, which coordinates the community-relations activities of 101 Jewish communities throughout the country and nine major national organizations. For many years, we've called for increases in the minimum wage. When we say, as you said a moment ago, that a substantial increase is needed just to restore the buying power lost since 1974, when the law was last amended, we are saying that the poor are getting poorer, and that the gap between rich and poor is widening not narrowing, contrary to the most basic aspirations of the Jewish community for a just and equitable society and contrary to the American promise.

So we are pleased to join this coalition effort to achieve a fair minimum wage and to dedicate ourselves to work through our 101 grassroots communities to achieve that goal.

I hope that this is just a beginning, that our coalition efforts will quickly bring results and that we will then coalesce again and again, in respect to many issues, until we have turned the dreams that we dream together into reality and have rid ourselves at last of the blight of poverty amidst plenty. Thank you.

ALATURE: Thank you very much. I am Assemblyman Richard Alatore. Last year when a great coalition was formed -- a coalition hoping to elect a President who would be sympathetic to the needs of poor people, sympathetic to the needs of minorities -- all of us went out and campaigned in support of this individual. And here, a year later after his election, the President introduces a proposal that would, in my mind, not really meet the needs of people throughout this country.

This certainly is not an issue of black people; this certainly is not an issue of Hispanic-Americans, this certainly is not an issue of men versus women, but this is an issue of people. And I think that the proposal that the President has submitted is inadequate.

If we look at the State of California, what the President is proposing is something that has already been law for a long period of time. We are proposing, in the State of California, a minimum wage of $3 an hour this year. We are preposing not only a $3 minimum but also a 35-hour work week. And this, I think, is a little bit more progressive.

I would hope that the President and the members of Congress who are certainly concerned with the needs of people throughout this country, who recognize that the proposals also that we are working for -- the proposals that the Coalition for a Fair Minimum Wage are working for -- are in fact equitable. The proposals that have been submitted by the President are inadequate, will not meet the needs of people and I think that this coalition can in fact be most viable if we work in a concerted effort, not as people against people, but as people working together in the same spirit and in the same manner that we worked to enact the civil rights laws here in this country, and in the same manner that we worked together to enact other progressive pieces of legislation that affect all people throughout the country, both men and women, minorities and the like. I am honored to sign this proposal for a fair minimum wage here in this country. Thank you very much.

MITCHELL: Senator Alatore has sounded a note which we all need to sound. President Meany and I were applauding him for it. He said that this is not an issue of blacks, not an issue of Hispanics, not an issue of labor people. It's a human issue, and I thank him for reminding us of that important fact.

LYNCH: My name is Gene Lynch and I'm the executive director of Frontlash. Young Americans make up a large percentage of those working poor who currently are paid the minimum wage, which is an unnecessarily low and unfair wage, on which they cannot support their young families, or even themselves. Youth leaders of various organizations around the country have signed a statement asking the Congress and the President to provide a wage that is fair and equitable for now and will continue to be in the future, and I would like to read that statement:

"We, the undersigned youth leaders, urge the Carter Administration and the Congress to act immediately in support of a decent minimum wage that is above the poverty line.

"Furthermore, we appeal to Congressional leaders and the President to state vigorously their commitment and establish a wage floor for all Americans.

"We are for a $3 minimum wage. We are for a cost-of-living index that sets the minimum wage at 60 percent of the annual manufacturing wage, beginning January 1, 1978.

"Opponents of a fair minimum wage have dragged out the same weary arguments that they have used in the past. They say that a minimum wage above the poverty line would 1. fuel inflation, and 2. increase unemployment. They state that this is particularly true among teenage workers.

"There is little evidence to back these claims and, in fact, successive studies by the Labor Department have proven, under both Republican and Democratic Administrations, that this, indeed, is not the case. According to the Labor Department the real effect of the minimum wage increases is, to quote: 'Help workers recover some of the purchasing power eroded by the steady upward movement of prices.'

"Young people are a substantial proportion of these workers who earn the minimum wage. Their pay rate is 61 cents an hour below the official poverty line. Workers in small retail stores and fast-food restaurants are forced into part-time work because there are few full-time jobs. Young Americans are a vast segment of the U.S. workforce. As a result of their artifically low incomes young people -- especially minorities -- suffer from inadequate health care and housing, and increasingly they are unable to afford any post-high school education and cannot support themselves or their families.

"Despite this tragic plight of American youth, the opponents of a fair wage would force young workers to accept even a subminimum wage for performing the work that they do right now. We are completely against a subminimum wage for young people or any other group. A subminimum wage would force adult breadwinners out of work, would drive young working people deeper into poverty and would not make any serious dent in the problems of chronic youth unemployment.

"In recent months the Carter Administration has renewed the traditional American commitment to human rights around the world. In that same spirit, we urge the Administration to demonstrate its commitment to the economic rights of the working poor in the United States by supporting a decent and fair minimum wage.

"Further, we would like to state that the people who have signed this will do everything that they can to express to the President and to the Congress that the working youth of America cannot accept a wage which locks them permanently into poverty."

MITCHELL: One of the great unions that has been ahead of the nation really in promoting the welfare of ordinary people is the International Ladies' Garment Workers Union. And we are honored by the presence of ILG's Executive Vice President Wilbur Daniels. I wish he would say a word.

DANIELS: Mr. Mitchell, I am honored to be in the presence of so many great leaders in the social welfare movement in the United States. I am honored to join with you in what I think is one of the major drives of this year in Washington and in the nation.

I rise to support a minimum wage of $3 an hour and a 60 percent rate of average hourly earnings in manufacturing as the principal for minimum wage determination in the future. I do so for two basic reasons: First the federal minimum wage has a tremendous meaning to the 365,000 workers in the ILGWU. Ours is basically a labor-intensive industry and an industry in which wages make a great deal of difference. And the labor-cost differentials, therefore, are of major significance in determining to what extent we can defend the standards the ILGWU has fought for in the last eight decades. These standards are today under attack on two fronts. The lack of a living wage abroad has meant to our people -- to our workers in the shops -- continued loss of wages, continued destruction of their standards.

But we have our own Koreas, and Hong Kongs and Taiwans right here in the United States. The lack of an adequate minimum wage is not a regional problem in the United States. Don't let anybody tell you that this is a problem of the North fighting the South; we have our own Hong Kongs, our own Koreas, our own Taiwans, in the South Bronx. We have them in Chinatown in San Francisco. We have them in Philadelphia and, to be sure, we have them in Mississippi and Georgia too. And so the only way that we can, on the domestic level, fight that onslaught on our standards is through an adequate minimum wage.

But beyond the interest of the 365,000 members of the ILGWU is the greater interest of the working poor, and we want to speak on their behalf because they share the same interests with us. Today's papers told us that our own government -- the government that now proposes a $2.50 minimum wage -- that our own government says that a bare, austere budget -- not an intermediate or a high budget, but an austere budget -- for a family of four requires earnings of $10,000 a year.

If we assume full-time employment, that means a minimum wage of around $5 an hour, not $2.50, not $2.60, certainly not $2.30 and not even $3 an hour.

So when we join you in support of a $3 minimum wage and in support of the mechanism of 60 percent of average hourly earnings, we join you on behalf of our own members and on behalf of all the working poor who we think deserve the support and protection of this government.

We do not agree with the Administration; we think that the Administration has been misled. It has been misled, for example, by people who cry crocodile tears about the impact on employment. The Chamber of Commerce and its cohorts tell us that an increase in minimum wages would increase unemployment. I worry about the concern of the Chamber of Commerce about unemployment, because wearing another hat they are the very people who say that a little more unemployment might not do us any harm, a little more unemployment might be better in controlling inflation. I think we have to look at the basic needs of the working poor. They are not now being met, and our proposal here will go at least some distance in meeting them. Thank you.

MITCHELL: We are fortunate to have representatives of the handicapped as part of our group. There is a very able chief executive of the handicapped group, Dr. Frank Bowe, who is here, and as you will see he has a hearing problem and that lovely young lady over on my left is translating for him. Frank, will you say a word?

BOWE: Thank you Clarence. I'm very please to be here. Clarence, you yourself and Mr. Meany -- many of you here -- have given us leadership in our very recent struggle for the most basic civil rights, the kind of leadership we have never seen in this country. I am here, on behalf of the disabled people our organization represents, to tell you, as I'm sure you know, that people who are disabled through no fault of their own because of educational, occupational, transportation and other barriers are limited by the 1974 Fair Labor Standards Act to half the minimum wage -- to $1.15 an hour -- if they must work in sheltered workshops because they cannot get jobs because doorways are too narrow or because employers will not consider the abilities as well as the disabilities of people. One dollar and 15 cents an hour is not enough; $2.30 is not enough, but $3 is a beginning. It's a very, very basic beginning. I'm very pleased on behalf of 36 million disabled people to sign this document and to join with you in a cause in which we very firmly believe. Thank you.

MITCHELL: At this point I would like to present two persons who are going to tell us about what it is like to earn the inadequate wage. The first of them will be Mrs. Eva Shields.

SHIELDS: My name is Eva Sheilds. I work as a teacher's aide in New Haven, Connecticut. I earn $6,000 a year and I support four children, ages 4 months to 11 years, and I am here this morning to tell you it is difficult -- truly difficult. It's a little game I call "juggler" -- juggleto meet my rent, my car payment, babysitter, and before I get home on payday, I have bill collectors there waiting for me. It is not fair to them that I'm not making a wage that could pay their bills, too. So this morning I will join in signing this declaration for a fair minimum wage. Thank you.

MITCHELL: Now this lady, I'm happy, to say is from my state of Maryland. She comes from Hagerstown.

STOTLER: That's right. My name is Mavin Stotler and I'm self supporting. I take home $80 a week, and I have to pay my rent and everything. And I got a letter in the mail February 1 that said my rent would be going up $25. My wages didn't go up $25, but I had to pay my rent. I have to pay my light bill and my telephone bill out of a little wage. And I'm going to sign this. Thank you.

JOHNSON: I'm Reuben Johnson of the National Farmers Union. In the 24 years that I have been with the organization we have stood with labor in many fights. I don't think we ever abandoned you when you were trying to raise the minimum wage. The reasons for that are not too complicated. In the first place, farm kids, the first day they arrive in town, generally get a job that only pays the minimum wage. Right at the moment, we in Agriculture -- a minority, I might add -- are suffering a kind of economic crisis. We are dealing with the Congress and we are talking about support prices that are, for the most part, below the cost of production. I think we have, in a real sense, a mutuality of interest here that many of us may not recognize. I know that others in the farm community don't recognize it as we do. I wish we had more understanding of the need for farmers and workers who pull in the same set of harness. I am here today to pledge the signature of the Farmers' Union to the declaration.

MITCHELL: I'm going to ask my long time friend and ally in the front row. Arnold Aronson, if he wouldn't sign at this point because he is such a faithful worker in the opinion of civil rights/labor matters.

ARONSON: I am very happy to sign and to join all of the people in this effort.

MITCHELL: And then there is Mrs. Olga Madar, who is also one of the veterans in this struggle for freedom on all fronts.

MADAR: Dorothy Height has said very well for all of the women's organization what we would like to say except for one thing. We do have a newly elected president of the National Organization for Women with us today. Eleanor Smeal was elected this past weekend. Elly do you want to come up?

MITCHELL: Mrs. Smeal, we saw your smiling picture in the paper when you were elected, and we are honored to have you with us.

SMEAL: This is my first official task, and I think it's very fitting, because one of our major goals for our second decade of existence is to close the gap between the average income of women and men. We are very concerned with the minimum wage and the fight to gain a decent living for all the working poor and to end the poverty problem. We are here as allies in the struggle. The struggle of the women's rights movement is really a struggle for human rights and human dignity. We are together as allies not only here but also on the Equal Rights Amendment, which is, of course, a human rights effort that all of us are united in. And so we are proud, and I'm delighted, that so many women's groups have taken the stand for a decent fair minimum wage.

MITCHELL: We are now at the point where we will ask Congressman Burton if he will say a word to us.

BURTON: It is good to meet with so many good people all in the same room in such a good cause. I've been honored to serve with our distinguished chairman of this subcommittee, John Dent, who has done more, in my opinion, for low-wage workers than any member in the history of our House of Representatives. We have fought over the years not only for adequate wage rates -- and in the main we have not succeeded in that -- but also for universal coverage, and we have done most of that which should have been done. However, there are still some exemptions and exclusions that I think we have a moral imperative to review and to eliminate to the extent that common sense dictates that that is in order.

I'm particularly concerned not just about basic wage coverage but also, perhaps even more importantly, about adequate treatment of the tip credit and maybe as importantly, I'm not sure, eliminating whatever pieces there are left as a result of the lack of time-and-a-half after 40 hours in the hotel and motel industry.

By and large, I'm optimistic that we will produce a good bill this year, but we ought to do it quickly. Every month that lapses is another month that low wage workers are doing without, and we must be mindful of that. I think the most fundamentally attractive feature of the bill is something that Chairman Dent has sought over the years, that I know that I have openly advocated, and that is some kind of an automatic escalation so we take these low-wage workers off the political auction block every two years and give them some assured minimum rights. I was impressed with the fact that Rueben Johnson of the National Farmers Union spoke in support of the minimum wage bill. That reminds all of us that if we are really going to succeed in terms of meaningful domestic programs, the farm-labor-urban-rural coalition must be something that we all bear in mind. And it may not be particularly comfortable for Rueben, with reference to his farm constituency, to be supporting a minimum wage bill that contains within its coverage farm workers, just as it is not necessarily all that comfortable for those of you that represent organized workers to support decent price and target support programs for American agriculture. But the world isn't a one-way street, as you know.

The AFL-CIO has demonstrated this time and again when they have supported, as the most important single voice representing the American consumers, decent proposals that assure some kind of adequate or at least minimum income to American farmers. Because only in that sense, and with only that kind of coalition, can we really see that the kind of people that we all represent will have not only in what I hope is a good year like this, but even in some of the drier years that we have had in the past, and may have in the future, will get their just due out of the legislative process. Thank you very much, and you can count on my support.

MITCHELL: Rev. Charles Helton of the Christian Methodist Episcopal Church is here.

HELTON: My friends, I'm really here representing Bishop Henry C. Bunton, who could not be here today. Bishop Bunton is the Presiding Bishop of the Seventh Episcopal District of the Christian Methodist Episcopal Church, based here in Washington. I'm here in support of the $3 minimum wage. Bishop Bunton has been a long standing leader in civil rights in support of higher minimum wage, and I'm here to sign in his behalf in support of the efforts of this coalition. We hope that the Congress and the President will see fit to sign such a bill.

NEWMAN: Mr. Chairman, I'm Sara Newman, and I represent the National Consumer League, which was organized back in 1899 as the National Consumers League for Fair Labor Standards. We introduced the notion of minimum wage into this country and we got people like Brandeis and Frankfuter to help fight for the minimum wage all the way up to the Supreme Court. Back in 1961 we organized just such a coalition to get an increase in the minimum. We are the only national consumers organization that has fought for increases in minimum wage from the very first day it was introduced into the country. I am very glad to sign for the National Consumers League and to indicate that we are still strongly working for increased minimum wage for all people in this country.

MITCHELL: Meanwhile, the distinguished chairman of the full committee has come in the Chairman Carl Perkins.

PERKINS: First, let me thank all of you for inviting me to participate on this occasion. Clarence Mitchell has been a wheelhorse on progressive legislation coming before this Congress in the past 28 years since I have had a privilege to be a member of this Congress. Likewise the great president of the AFL-CIO, George Meany, and his chief lieutenant Andy Biemiller, whom I served with the 81st Congress. I know we have some problems in connection with writing any minimum wage law, but the legislation as advocated by Mr. Meany is a fair and just minimum wage which I intend to support as chairman of the House Committee on Education and Labor.

And I want to say on behalf of Johnny Dent, who has chaired this committee so ably for so many years, that if there was a group of people that might be hurt in some way, he's always been reasonable about exemptions, but at the same time he has never wanted a worker to be employed at a substandard wage, and he's got the cooperation of Carl Perkins.

MITCHELL: Thank you, Chairman Perkins. And now Leon Keyserling -- who is one of the great institutions, no longer a mere man in Washington -- Leon is going to say a word and after that Bill DuChessi then we go to my announcement of Chairman Dent.

KEYSERLING: To the members of the panel and the Congress, they say I have been around here as long as George Meany, but everybody knows I haven't been able to keep up with George in other ways and I'm wearing out much faster. I could also pay tribute to Andy and Clarence and Dorothy and George and Carl Perkins, but the tribute to them is that they are here, they are always here.

Now, 14 years ago I wrote a pamphlet in defense of a $2 minimum wage and, as we all know, a $2.50 minimum wage today has far, far less purchasing power than a $2 minimum wage at that time. But I just want to say a word about the relationship of the minimum wage to other things.

I have been going around the country and everywhere I run into the meetings of those distinguished economists and others who are responsible for the 10 million unemployment that we have now, and the fact that we haven't had full employment since Harry Truman left the White House. They are always talking about all wages being too high. They just have one single refrain, that inflation and unemployment are all due to wages being too high.

Well, the fact is that any fair examination of what's wrong with the American economy starts with the point that the wage earners of America, the employed as well as the unemployed, the so-called high-paid as well as the so-called low-paid, simply do not have the purchasing power to make their contribution to full employment. And the importance of the minimum wage is, among other things, along with its fairness to the working poor and to the underpaid, that it would make its share of the contribution to creating enough purchasing power for the employed to be paid decently and for everybody to be employed, and for us to be able to get enough revenues to meet our pressing human needs in all fields. So this is not just a fight for the poor. Not just a fight for the minimum wage. This is a fight for America.

MITCHELL: Here is Bill DuChessi, executive vice president of the Amalgamated Clothing and Textile Workers.

DuCHESSI: I got a shock yesterday. Our union, the newly merged Amalgamated Clothing and Textile Workers Union, is holding its biennial convention of its Canadian locals up in Quebec City, and last night I was amazed to find out in Quebec the minimum wage is $3 an hour, and in Ontario the minimum wage is $2.85, and here in America we are talking about $2.50. I want to express my affection for our leader, President Meany and for Monsignor Higgins and yourself, Clarence. We have been in a lot of fights together helping the poor, and this is what this is all about. Our organization is committed to help put across a program that will help the poor and needy of this country. Many of our union members no longer need that $3 minimum -- we are past that stage -- and when we put up this fight we are fighting for those who can't help themselves. And we pledge to you our entire support.

MITCHELL: When Bill and I were young, textile workers were organizing in the South and there were those who tried to get them organized on a separate-union basis. I am pleased to say that he and others of their leaders stood together and eliminated segregated locals, even in the South. And I would say that I think the South is better because of the work and social vision that the leaders of this union had in reaching the ordinary people.

It is now my privilege to allow us to have the words that will carry us forth from the distinguished chairman of this subcommittee, Congressman John Dent.

DENT: Thank you, Chairman Mitchell. You have heard distinguished persons who have for many years been in this battle. They have been up and down the countryside, in the valleys and the hills and on the streets and in the alleys and in the shops, in the factories, and in the pits and in the mines and in all the working places of America for many years, and they know the conditions. When they say something to you, you can count on it that that is the truth.

I introduced the minimum wage bill into the Pennsylvania State House of Representatives in 1935, the first time we had control of that House in 100 years. And low and behold, we had enough shavers like myself, who had just come out of a glass plant or rubber works or the pits of a coal mine some place, that we passed the minimum wage in the Pennsylvania House in 1935. The Senate was Republican, and they put it in a pickle barrel and pickled it. So I ran for the Senate the same year. I was elected, and we passed the bill in the Senate. And I take more honor in that than in any other thing I ever did in my life.

I believe that there is no connection at all between the argument that if we pay a higher minimum wage and if we don't set a lid on wages for youth, there will be less labor in the country for youth and less for adults. Those who are fighting us the most are your so-called chain operations. Great big food markets. Cut-rate stores like Kresges and K Mart, Two Brothers and six sisters and one uncle and-a-half; all of those who have these strong arms.. And you know the people we are trying to help are their customers. They are the ones that patronize these lowest-price places. They are the ones that are forced, because of the limited income that they have, to buy in the places where oft times they buy shoddy goods, made in foreign countries with cheap labor; not because they want to, but because they have to. And yet, if we increase this small percentage we are talking about, it will give them the same customers with a little more money to spend in their stores.

I can't understand the philosophy or the economics of people who do nothing in life but take the product of labor and then put it into the hands of consumers. Their productivity is nothing but writing up a larger margin of profit between what they buy if for and what they sell it for. The two persons that they have to depend on are the producer and the consumer. And in that field most of the production workers in the United States are not within the embrace of the low minimum wage that we have. Their own workers, in the main, are the ones who usually get paid the minimum wage.

You know, the figures are so strong in our favor that if the figures alone were the answer, and if Congress was made up of all horses instead of so damn many mules, there wouldn't be any problem whatsoever in passing this legislation.

We've always been told since 1935, when I introduced the bill there's never been a time when the minimum wage bill was introduced that it was the right time to introduce that minimum wage. It's always the wrong time. Well last year was the wrong time, and now we are paying the penalty for it. We listened to many of our own Democratic members who are so fearful of a minimum wage right before election that we discarded our own good judgment becuase that's the best time to pass the bill. A lot of people don't understand that.

The best time to pass the minimum wage bill is right before an election, and I'm finding out that the worst time is right after election, with the enormous majority that we have in the House of Representatives.

Your work need not be done now amongst yourselves. Your work now has to be done in the halls of the Congress and I'm afraid in the halls of the Senate. Let me give you a little something: the President asked Congress to pass a bill — it was his first venture Mr. Meany, Mr. Mitchell and all of you — and so those of us who had our own opinions of that piece of legislation fell in line. And I might say that labor fell in line, too. When all of us said after we voted for the "$50 for everybody," somebody fell out of bed, and the people who were left there without any blankets in the cold of the night were us that went along with it.

Now here is what that meant: It meant $50 for everybody in a family earning less than $25,000 and it would cost $11 billion, I understand — $11,700,000,000. We have taken the figures of the indicated increase that labor is supporting and embodied in the "death bill," as some people refer to it, and we find for the next four years the increase will only be $12,500,000,000 total, and they were willing to give away $11 billion in one year to those earning $25,000 and less.

Sure, I went along with it — I apologize to you for it — but I hope that if we can pass this legislation that you will accept my apology, because I want to tell you something. There is no relationship of the cost of living index used for the universal increases paid for federal employees and many other areas of increase in pay, because when the cost of living is figured on the necessities of life for the person earning $2.30 an hour, that cost of living makes darn near 100 percent of his whole income.

And so if we are going to have a cost of living index, don't base it on the cost of the market basket, because that has nothing to do with increasing the wages and salaries of persons making $50,000, $40,000 and, like Congressmen made until last night, $57,500 or something a year. My percentage of what I call my cost of living is based upon what I have to have to live with, because that's the figures they give me on minimum wage. If I live at a little better level than that, and I can buy caviar when you are buying elderberry jelly, if that point comes, then I shouldn't be getting a raise because I'm buying caviar -- and that's my cost of living -- but it should be based on what it cost the other fellow buying elderberry jelly.

I believe in this index that we have worked out in conjunction with labor's statisticians. I want to say at this moment, I did not give credit to Phil Burton for the muscle help he's given me over the years, for backing me up when I got a little weak and was willing to give in, now and then, for being the kind of fighter that I believe has fought all his life, first and foremost in his endeavors as a legislator and as an American citizen, for the welfare of those who have to work for a living and those in the lesser income brackets of this country. I salute Philip Burton as I salute all of you in this room for your efforts.

I can't help but give you something to go home with: They are going to make a fight. Almost all the institutions in the United States are making the fight against the so-called "automatic payraise." Well, let's see what we are talking about: The minimum wage in 1950 was 75 cents. It was 56 percent of the hourly wage level in the United States. In 1956, it went to a dollar. It was 56 percent of the average earned wage in the country. Stepember 1961: $1.15, 52 percent. September 1963: $1.25, 54 percent. February 1967: $1.40, 54 percent. February 1968: $1.60, 59 percent. Two dollars in May '74, 51 percent. January 1975: 51 percent; January 1976: 51 percent, for an average of 54 percent since 1950 of the minimum wage level compared with wages.

And here we are talking about being held to 50 percent. What's happened to the Something more important and something more telling.

In 1950, the percentage I gave was 54 percent. From 1954 up the ladder to 1976 it has dropped from 54 percent of the average manufacturing wage paid in the United States to 46 percent of that wage. And then, I add, Mr. Schultze tells me and tells the economic advisors that any minimum wage was inflationary. And so he offered as a compromise, in the first instance, 5 cents an hour. And it broke his heart; he went home weeping and sobbing and crying and begging because they finally went to 20 cents an hour.

The same Schultze took the 13 or 14 thousand dollar increase just last month. The whole staff around the president got a $400,000 increase, and the way how they worked it is beautiful. If you did that you would be accused of chicanery.

What did they do? They said we have given $400,000 in increases to these boys we just put on board January 4, most of them from under 35 up to 50. But they say "We saved $156,000, because if we had gone the limit the law allows, we would have had to spend $156,000 more."

So we are now saying give us $3 an hour. That will cost this country $3,177,000. However, since it hasn't gone to where it should be -- at $4 an hour -- we are saving you $1.5 billion.

I heard no murmurs, I heard no anguished cries of inflation when last week I picked up the papers here, and learned about a very nice young lady — I presume she is a very personable person, very capable person — whom Mr. Nader, who is the voice of conscience on all these matters, paid $12,000 a year. Mr. Schultze, head of the Council of Advisors, who is also the voice of conscience for the minimum wage people, okayed a salary for her last week of $52,000 a year. In one fell swoop, from $12,000 to $52,000. And another person on the same base of occupation of $22,000 a year, got a little cut: he only went to $50,000 a year.

And the mullish part of the Congress last night voted not to fund the pay raise for Congress. They said that that was too much money. Well, let me just give you something. If you don't believe you are paying minimum wage to Congress, you are crazy. Compared to that to the crowd downtown . . . . Let me tell all of you something: Up until just 1967, the Congress was on an even footing with the courts and the cabinet officers, and then we started to get more members in Congress who had never worked a day in their lives. And they wanted the honor of office. I bet you that I could get you 217 members of Congress -- and that's the majority -- that if you will assure them they have no opposition they will work for nothing and give a bonus for the privilege of being members of Congress.

I didn't come to Congress for that. I was a machinist at the time I came to the Congress of the United States and I had two children and a demanding wife. She demanded enough to eat, she demanded shoes, she demanded some clothes and she demanded that I get out of that slump that I was in. And I've lived since 1932 as an elected member of a legislative body on my salary as the base of my income, and then, listening to tips and some pretty guidance, invested a little of it.

I want to tell you right now that you have two jobs to do. If Congress displays goodwill and understanding of the problems of the little people in this country, they ought to be honored for the position that they hold. If we go back to $46,000 we will be something like $20,000 behind the cabinet officers, the same fellows that earned the same money we earned in 1967.

This is the danger, and it's already here. When we ask the cabinet officers to come up before a committee of the House -- now it's a new Administration and they want to get their name and picture in the paper showing they are up before a committee -- that will be the last time until the term is over, they will send number five down the line, because he is equal to a Congressman and he is making more money.

Now, I didn't bring that in except for one reason: In minimum wage, in trade and crafts, in production facilities, retail institutions, and in government jobs and in elected officials, you only get what you pay for. And I am telling you at this moment that we are in grave danger . I am convinced, after last night, that we are going to have trouble even getting a cut-rate bill through. I say that because I have been reading legislatures for a long time. There's only one thing that can change it. I don't need to admonish labor organizations; I don't need to admonish Clarence Mitchell and his group, but I do admonish you: Don't sleep. Don't think because we have two-to-one Democrats and a few Republicans that we sometimes count on, that you have a vote. Your vote has to be an anticipation of what might happen at the White House. It has to be two-thirds or better in passing the House of Representatives in order that it won't be vetoed.

I hope that the President will listen to the voices of reason. I hope he will take Schultze and do with him what other Presidents have done -- send him back to the sauerkraut factory and let him go to work -- because I think that the economic advisors do not work in the area of the breakfast table, do not work in the area of the kitchen, do not take the position in their mind that needs to be taken when it comes to considering that body of Americans who are least educated of all Americans, who are least able to fight for themselves and speak for themselves, who are in the position of depending upon that one body in this country to see that they do not fall too far behind the mainstream of American workers and American families.

I not only pledge you my support in any fashion that I can, but I pledge that I will get, with your help, the best minimum wage bill ever passed in the history of this country.

MITCHELL: Thank you. We are now adjourned, and I thank you for being here.

The CHAIRMAN. Excellent testimony.

[Whereupon, at 10:43 a.m., the subcommittee recessed, to reconvene at 9:30 a.m., Tuesday, August 2, 1977.]

FAIR LABOR STANDARDS AMENDMENTS OF 1977

TUESDAY, AUGUST 2, 1977

U.S. SENATE,
SUBCOMMITTEE ON LABOR OF THE
COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m. in room 4232, Dirksen Senate Office Building, Senator Jacob K. Javits, presiding pro tempore.

Present: Senators Williams, Javits, Stafford, and Hatch.

Senator JAVITS. The committee will come to order.

By direction of the chairman, Senator Williams, I shall preside until he returns.

We resume our hearings on the minimum wage amendment of the Fair Labor Standards Act. Our first panel is from the U.S. Chamber of Commerce. It consists of Mr. Louis P. Neeb, Mr. Robert Thompson, and Mr. Jack Carlson, who is vice president and chief economist for the U.S. Chamber of Commerce.

Gentlemen, would you proceed in the order which you wish. But, we wish you would confine the presentation in chief to 10 minutes and in each case your full statement will be considered part of the record.

STATEMENTS OF ROBERT T. THOMPSON, CHAIRMAN AND TREASURER, LABOR RELATIONS COMMITTEE, SENIOR PARTNER WITH LAW FIRMS OF THOMPSON, MANN & HUTSON, LOUIS P. NEEB, PRESIDENT, STEAK & ALE CORP., AND JACK CARLSON, VICE PRESIDENT AND CHIEF ECONOMIST, U.S. CHAMBER OF COMMERCE

Mr. THOMPSON. Senator Javits, thank you.

If I may, I would like to summarize our statement briefly and then call upon Mr. Neeb and Dr. Carlson to elaborate specific points.

My name is Robert T. Thompson, a partner in the law firm of Thompson, Mann & Hutson, of Greenville, S.C., chairman of the chamber's labor relations committee and the chamber's treasurer. Accompanying me is Louis Neeb, president of Steak & Ale Corp., Dallas, Tex. Also with me is Dr. Jack Carlson, vice president and chief economist of the national chamber, whose comments will follow Mr. Neeb's presentation. Also with us today is Mr. Mori Diane of Mr. Carlson's staff.

The national chamber is the largest association of business and professional organizations in the United States and the principal spokesman for the American business community. It is a federation of more than 2,500 local, State, regional chambers of commerce and American chambers of commerce abroad, more than 1,100 trade and professional associations, and over 64,000 firms and corporations.

The chamber appreciates this opportunity to express its strong opposition to the Fair Labor Standards Amendments of 1977, Senate bill 1871.

It is a sad commentary on the times to note that the original intent, back in 1938 of the Fair Labor Standards Act is being cruelly ignored. This intent was, of course, for the act to establish a shield against low-wage competition and to aid low income workers. The ignoring of this intent has resulted in increased unemployment, disastrously so among teenagers.

There is little doubt now that excessive increases in the minimum wage rate result in increased unemployment—especially among low-wage workers, the unskilled and the young. To deny such results is an irresponsible refusal to see the facts.

The current nationwide unemployment rate is currently running close to 7 percent. Proposed increases in the minimum wage have been to a level as low as $2.50 and as high as $3 per hour. Although the $2.65 figure in S. 1871 falls in between, it would still result in unacceptable damage to employment.

Recent analyses evaluating the impact on employment of excessive increases in the minimum wage rate clearly show that, if the minimum were increased to anywhere between the low of $2.50 to the high of $3, between 600,000 and 2 million jobs would be lost.

The most shameful statistics we see each month are those for teenage unemployment. This past June, 19 percent of our teenagers were out of work. That is an unbelievable 1,701,000 youngsters.

Based on Senate bill 1871's proposed increase to $2.65 per hour, our economists estimate that there will be 387,000 fewer jobs for teenagers between the ages of 16 and 19. Overall teenage unemployment would go to 24 percent. Among black youth, where current unemployment is a devastating 39.4 percent, it would approach 45 percent if the minimum wage rate were increased from $2.30 to $2.65.

An increasing rate of inflation is on its way to becoming a permanent part of our economy. This unnerving economic reality would be spurred on by excessive increases in the minimum wage rate which could become an annual event if the automatic "indexing" system proposed in this bill is adopted.

The consumer, who always bears the final burden, cannot be continuously asked to pay higher and higher prices—but higher prices will be one result of the proposed rate increases.

Increasing labor, production, transportation, and marketing costs are all players in the economic game who would suffer from the robot-like, nonproductivity related minimum wage indexing proposals.

An increased minimum wage will raise the general level of wages to maintain existing wage differentials relating to skills and other factors. The impact of an increase in the minimum wage on the whole wage structure has been described as the "ripple effect." This general wage-boosting effect greatly magnifies the inflationary impact on the consumer. The higher costs to the consumer bring about pressure by consumers for increases in their own wages, resulting in a continuation of the wage-price inflationary spiral.

The most dangerous and damaging part of S. 1871 is the provision tying minimum wage increases to a percentage of the average hourly earnings of manufacturing workers.

This would result in an established, built-in inflation to wages generally. The whole concept of indexing the minimum wage is bad economic policy. The robot-like mechanism fails to take into consideration the underlying cost-push problems in our economy and, furthermore, treats inflation as if it were a permanent part of our economy.

It is the responsibility of Congress to review periodically the minimum wage law and relate it to the state of the economy. An indexed minimum wage would represent a congressional abdication of the responsibility in favor of a system out of touch with the needs of a growing population and an expanding economy. The specific index being proposed today is a stimulus to inflation.

This clearly is so because manufacturing wages have increased faster than average wages during the last 10 years. Furthermore, the index includes the minimum wage rate in its computation; as the minimum increases, so does the index and as the index increases, so does the minimum, et cetera.

The elimination, or reduction to a fixed dollar amount, of the tip credit would result in severe economic consequences both to the particular industries overall and the employees in particular.

With me today is Mr. Louis Neeb of Steak and Ale Corp., who is particularly conversant with the problems which would be presented by the proposals dealing with the tip credit provisions of the Fair Labor Standards Act. At this time I would like to ask Mr. Neeb to comment on this particular provision.

Mr. NEEB. Thank you, Bob.

Mr. Chairman, Senator Javits, Steak and Ale is a chain of approximately 140 restaurants. We operate in 30 States and employ some 9,000 employees. We are the largest firm in our segment of the restaurant industry, the table service segment dealing with limited service dinner.

The tip credit provision to us is particularly important as approximately half of our employees are tipped employees and I am here representing not only myself but also those employees. I should add, over 3,000 of our employees have already, as I understand it, written to Members of the House of Representatives expressing their opposition to the reduction or repeal of the tip credit.

For that matter, as we see the tip credit, it seems strange that the Congress has even considered looking at whether or not tips should be credited as a part of the income of an employee. If you look at the original intent of the 1938 minimum wage law, the intent was to raise the income level of the employees and tips are considered income by the Federal Government under tax law, both Federal and State and other applicable laws. And, in fact, employees are liable under the income tax law for failure to decline tips as income.

Today, our tipped employees average over $6 per hour. Coffee shop operations that I have talked to—and these are admittedly national chains—average well over $4 per hour. In 1971, the last time the Department of Labor surveyed tipped employees, they found that tipped employees averaged $2.61 an hour, and I can only estimate that that figure would have to be far in excess of $4 today, given what has happened to inflation and to prices.

A Federal judge most recently, in reviewing the minimum wage legislation, looked at the tip credit and said, for reasons he did not understand the Congress had chosen to grant a preferential minimum wage to tipped employees far in excess of the minimum wage for other employees.

We believe, and I am sure the Senator and chairman are aware that the customer does pay all labor costs. I am sure you are aware of that. There is no magic fund of money that we have other than what we received from the customer. If the Congress raises the minimum wage and eliminates the tip credit for our segment of the industry we must find ways of either passing that cost on to the consumer either in increased prices or in some reduction in service. I will talk in a moment about our California experience and that of two other large chains.

We have also done some research that indicates the consumer already perceives the tip to be a part of the cost of an evening's entertainment in a dining out experience. For example, if you go out and dine for $22 for a couple, you look at the cost of that evening—it was $25, not $22, and you are considering that tip to be—I believe the New York Times referred to it not as a gratuity or a gift but as a gift only in the sense that you cannot be sued for failure to leave a tip. And I would also add that I am sure you are aware of some restaurants where you can be run down in the parking lot by a waiter if you fail to leave a tip. They'll let you know what they think about it.

At any rate, the reason our employees have opposed this change in the law is for a very obvious reason; they see it as reducing their income for themselves. They know that higher prices mean less customers. Less customers mean less people to leave tips and, as one of our employees explained to a Member of the House last week, he said you can raise this and think you are helping me, but if I lose one party a night I lose far more income than you would grant me by freezing the tip credit. Of course, the Senate bill is much more restrictive.

I would like to talk briefly about California because you will hear about California, and I would add, I am not an economist. I won't talk in macronumbers. I only talk from our own experience.

Our firm, as I indicated, is a large firm. We have one of the highest, if not the highest, profit margins in our industry. We are considered by Wall Street and the investment community to be extremely successful. Victoria Station and Red Lobster are two equally successful chains, also very large, all of us over $100 million in annual sales, all employing many thousands of employees. All have tried to operate in the State of California. All have had problems.

In our case, we at one time had 13 restaurants in California with approximately 800 employees. Today, we have sold six of those restaurants and, unfortunately, five of the six buyers from us at this point are in trouble and we are providing financial assistance to them to avoid receiving those restaurants back.

We have contracts to sell four more and we are going to license the last three on a sweetheart license arrangement whereby we are absorbing a portion of the occupance expense. I should also add for our firm, we lost $300,000 in the State of California last year and that is the reason we are getting out of California; $300,000, Mr. Chairman.

The Red Lobster—they have over 220 restaurants across the country. They have a very fast expansion rate, some 40 restaurants a year.

They had planned to build 24 in California. You know, California has one-tenth of the country's population. They built three of the restaurants and, like ourselves, were looking at California as just not being able to believe that California would, in fact, raise the minimum wage to $2.50 and do away with tip credit.

Of course, they did both. Red Lobster at this point has only three restaurants in California. All are losing money. They have canceled the plans to build the other 21 restaurants, which is nearly 2,000 jobs and have no further expansion plans in California and they are building 40 restaurants elsewhere in the country.

Victoria Station started in the San Francisco area. They have 16 restaurants in their home State. Like all of us, they like to do well in our home State. They have raised prices in the last year 10 percent and suffered a 5-percent drop in dollar volume in California. They have no further plans to expand in California. They will not give us their figures in open hearing but indicated they would be willing to sit down with you and discuss the profitability or, I should say, lack thereof in California.

For Steak and Ale, this coming 12 months we will spend $30 million to build 30 restaurants and create 2,000 jobs and not one of them will be in the State of California. I think that speaks to the investment climate in California. I want to add that you will hear a lot about growth in California but what you will hear in California is about growth in self-service, in fast food restaurants.

One of our tipped employees also told another Member of the House that they viewed this bill as the "fast food and MacDonalds bill" because it was designed to force the American people to eat at MacDonalds and fast food and self-service restaurants rather than a tablecloth restaurant. And, I would add, nearly one-third of the food dollar spent by the American public is now spent away from home and every indication is that the housewife is not going to go back to cooking at home after working all day. So people are going to continue to eat out but they are going to have to stretch the dollar.

Thank you, Mr. Chairman.

The CHAIRMAN [presiding]. I missed the point here. Who is calling this bill?

Mr. NEEB. Our employees.

The CHAIRMAN. They are calling it what?

Mr. NEEB. They are calling it a "MacDonalds and fast food" bill because it is designed to provide an incentive to the fast food operations and self-service operations and reduce the competitive opportunity for table service restaurants.

The CHAIRMAN. You can advise them they are wrong on that.

Mr. NEEB. I would like to.

The CHAIRMAN. I appreciate your statement. I did miss one link, when you were describing California. What action was taken when in California?

Mr. NEEB. Mr. Chairman, over about a 2¼-year period of time the California minimum wages were raised to $2.50 an hour and the tip credit was eliminated. You will hear a lot of figures about California in 1976, and, of course, they are not complete figures because we lost the tip credit in California only in October of last year.

Second, many firms had already made financial commitments, contractual commitments that we had to live up to with people in our industry as far as expansion goes in California. I believe one of the difficulties you will get into with the economists is in looking at the impact of minimum wage. You can't deal with 1 year, or 2 years, or 3 months preceding or 3 months after. You have to look at a lengthy period of time and I believe that the overall results in California won't be known for some time. All I can tell you is what we see in our situation. We can't afford to operate in California and are not going to.

Dr. CARLSON. Senator Williams, it is a pleasure for me to appear before this committee, as I used to do quite regularly when I was Assistant Secretary of Interior and had health and safety responsibilities for miners.

I would like to start off by saying that I associate myself with some of the statements AFL–CIO President George Meany made yesterday about his great concern, my great concern, other people's concern, with the very high unemployment and discouragement of teenage workers, and especially the minority workers where the unemployment rate is 40 percent, and for all teenagers, as Bob Thompson indicated, is over 18 percent.

The discouraging factor is that the unemployment rate of teenagers has been increasing even though the level of total unemployment has decreased, indicating something is causing that increase in teenage unemployment. Most studies indicate that increases in the Federal minimum wage is a cause of underemployment and unemployment of unskilled workers, including teenagers; and that is why we oppose this legislation which will add to the loss of employment of unskilled and semiskilled people, particularly the young, minorities, and women.

Even Labor Secretary Ray Marshall in his testimony before this committee indicated that there is a loss of employment because of the proposed increase in the minimum wage. Unemployment will actually increase. He is the first Labor Secretary to acknowledge that fact even though all of the analyses for many years have indicated there is a loss of employment.

The most recent study using the best available data, a study by Graves, Krumm & Tolley of the University of Chicago, has indicated that the loss of employment results will be fairly sizable if the bill that is coming out of a committee of the House of Representatives in its current form should survive passage in the Senate. And using their analysis, the increase of the minimum wage from $2.30 to $2.65 January 1, 1978, would mean a loss of employment of 769,000. When it increases from $2.65 to $2.89 in January 1, 1979, it would be 1.4 million and when it increases from $2.89 to $3.15 in January 1, 1980, it would be about 2 million as the loss of jobs.

I might say that another analysis, using a measure of productivity losses from increases in the minimum wage indicates that even these figures underestimate the job loss. Another factor is to realize that these numbers may be minimum numbers because in the past we have not indexed the minimum wage and so, where an employer may take it on the chin by absorbing an increase in the minimum wage, he knows with inflation that the financial loss will decline in a year or two.

Consequently, none of the studies indicates what the unemployment effect might be or the loss of employment opportunities might be because of indexing, and it is likely to be quite a bit larger than the figures that we see now.

Particular States will be affected by losses in the minimum wage. I might indicate in your own State of New Jersey the University of Chicago study shows that 10,000 people would lose jobs because of the increase in the minimum wage January 1, 1978, 27,000 total January 1, 1979, and 44,000 total January 1, 1980. The large proportion of those would be teenagers, nearly half of them; 4,000 in 1978, 12,000 in 1979, and a total of 19,000 from this piece of legislation. So, it hits both the Nation and hits your own State. I include a table showing the other States as well.

[The information follows:]

LOSS OF EMPLOYMENT, INCREASE IN LABOR COSTS AND INFLATION CAUSED BY THE ADMINISTRATION PROPOSED INCREASE IN THE MINIMUM WAGE ABOVE THE CURRENT $2.30 (OR 46 PERCENT) OF THE AVERAGE MANUFACTURING WAGE)

States	$2.65 effective Jan. 1, 1978			$2.89 effective Jan. 1, 1979			$3.15 effective Jan. 1, 1980		
	Employment loss	Labor cost increase	Consumer Price Index	Employment loss	Labor cost increase	Consumer Price Index	Employment loss	Labor cost increase	Consumer price index
Alabama	14	2.0	1.3	25	3.5	2.3	35	4.8	3.2
Alaska	0	1.1	.7	0	2.0	1.3	1	2.7	1.8
Arizona	8	1.7	1.1	15	3.0	2.0	21	4.1	2.7
Arkansas	10	2.3	1.5	17	4.0	2.7	24	5.5	3.7
California	33	1.6	1.0	88	2.8	1.9	142	3.8	2.5
Colorado	11	1.6	1.1	19	2.9	1.9	27	3.9	2.6
Connecticut	13	1.7	1.1	22	3.0	2.0	31	4.1	2.8
Delaware	2	1.6	1.1	4	2.8	1.9	6	3.9	2.6
D. C.	0	1.5	1.0	1	2.6	1.7	3	3.6	2.4
Florida	32	2.0	1.3	56	3.6	2.4	79	4.9	3.3
Georgia	21	2.1	1.4	36	3.7	2.5	51	5.1	3.4
Hawaii	4	1.8	1.2	6	3.1	2.1	9	4.3	2.8
Idaho	4	1.7	1.2	7	3.1	2.0	9	4.2	2.8
Illinois	41	1.5	1.0	72	2.7	1.8	102	3.7	2.4
Indiana	20	1.5	1.0	35	2.6	1.8	50	3.6	2.4
Iowa	11	1.5	1.0	19	2.7	1.8	28	3.7	2.4
Kansas	11	1.8	1.2	19	3.1	2.1	27	4.2	2.8
Kentucky	13	1.8	1.2	22	3.1	2.1	31	4.2	2.8
Louisiana	14	1.7	1.1	24	3.0	2.0	33	4.1	2.7
Maine	5	2.1	1.4	9	3.8	2.5	13	5.2	3.5
Maryland	17	1.6	1.1	29	2.9	1.9	42	3.9	2.6
Massachusetts	24	1.8	1.2	42	3.2	2.2	59	4.4	2.9
Michigan	33	1.3	.9	57	2.3	1.6	80	3.2	2.1
Minnesota	20	1.6	1.1	34	2.8	1.9	49	3.9	2.6
Mississippi	10	2.3	1.5	18	4.1	2.7	25	5.6	3.7
Missouri	19	1.7	1.1	32	3.0	2.0	46	4.1	2.8
Montana	3	1.5	1.0	5	2.7	1.8	7	3.7	2.5
Nebraska	7	1.8	1.2	12	3.2	2.1	17	4.4	2.9
Nevada	3	1.6	1.0	5	2.7	1.8	7	3.7	2.5
New Hampshire	4	2.1	1.4	7	3.7	2.4	9	5.0	3.3
New Jersey	10	1.7	1.1	27	2.9	1.9	44	4.0	2.7
New Mexico	5	2.2	1.5	9	3.9	2.6	12	5.4	3.6
New York	56	1.7	1.1	98	2.9	2.0	139	4.0	2.7
North Carolina	29	2.3	1.6	50	4.1	2.7	71	5.6	3.7
North Dakota	3	1.9	1.3	6	3.3	2.2	8	4.6	3.0
Ohio	39	1.5	1.0	68	2.6	1.7	97	3.6	2.4
Oklahoma	10	1.9	1.2	18	3.3	2.2	25	4.5	3.0
Oregon	8	1.5	1.0	14	2.6	1.7	19	3.6	2.4
Pennsylvania	44	1.6	1.1	76	2.9	1.9	108	4.0	2.7
Rhode Island	5	2.1	1.4	8	3.8	2.5	11	5.1	3.4
South Carolina	13	2.3	1.5	23	4.0	2.7	33	5.5	3.7
South Dakota	3	1.9	1.3	6	3.4	2.3	8	4.7	3.1
Tennesse	17	2.1	1.4	29	3.7	2.5	41	5.0	3.4
Texas	51	1.8	1.2	89	3.2	2.1	125	4.3	2.9
Utah	6	2.0	1.3	11	3.6	2.4	16	4.9	3.2
Vermont	2	2.0	1.3	4	3.5	2.4	5	4.8	3.2
Virginia	21	2.0	1.4	37	3.6	2.4	52	4.9	3.3
Washington	11	1.4	.9	20	2.5	1.7	28	3.4	2.3
West Virginia	6	1.6	1.1	10	2.8	1.9	14	3.9	2.6
Wisconsin	21	1.6	1.0	37	2.7	1.8	53	3.7	2.5
Wyoming	2	1.6	1.1	3	2.8	1.9	5	3.9	2.6
Total	769	1.7	1.1	1,380	3.0	2.0	1,977	4.1	2.7

Dr. CARLSON. This is just not in terms of taking one scholarly evidence of what has happened with the minimum wage in the past, but also, we have conducted a recent survey, a survey of small businessmen, those most affected by increases in the minimum wage. We sent surveys to 12,000 of these businessmen. We have 4,111 returns. This is a 34-percent response.

As a direct result of the proposed increase in the minimum wage that is being considered by this committee, 49 percent of the small businessmen would be required to cut the number of hours per week that employees would work; 46 percent would cut the numbers of employees; 79 percent would hold off hiring new employees; 48 percent would replace workers with labor-saving equipment. Even with the reduction in employment, as indicated by the survey, 80 percent of the small business companies said they would have to increase prices.

In terms of the estimates of the Chicago study, using historical data, this bill would increase consumer prices. The increase, from the increase proposed for January 1, 1978, would force consumer labor costs up 1.7 percent and the Consumer Price Index up 1.1 percent. The 1979 increase would force labor costs up 3 percent and the Consumer Price Index up 2 percent. The 1980 increase would force labor costs up 4.1 percent and the Consumer Price Index up 2.7 percent; clearly indicating that even after there has been some layoff of employment some costs will be coming through to the consumer because of this particular bill.

With regard to creation of a youth differential, 74 percent of small businesses surveyed expect this would have a moderate to major effect on decisions to hire young people in the future and nearly all of these small firms surveyed, 93 percent, oppose indexing of the minimum wage.

This bill is antismall business because it would affect the small businesses more adversely than big business. The lower paying jobs are disproportionately located, among small businesses. Their costs would increase more than large business costs, thereby reducing their competitive position in the economy.

The indexing provision is particularly bad. It would lower the employment even more than I think the scholarly estimates would indicate because now you would have an automatic increase in labor costs to keep it in relationship with one of the fastest growing labor-wage areas, that of manufacturing—which has a lot more capital per worker than other parts of the economy. It is an unfortunate choice to measure changes in terms of automatic upward adjustment. So the employment would go down and, as Bob Thompson has indicated, indexing has this circular inflationary effect and adds to the inflationary bias within the economy.

Clearly, I think Secretary Marshall was on track when he said in his testimony indexing would be a major departure from our current method of adjusting minimum wage. Then, he went on to say that we should have a study of the effects of indexing as a way to set the minimum wage. However, I would argue very strongly because of the pervasive impact indexing would have, that that study ought to be made ahead of time, not after the fact as indicated in Secretary Marshall's testimony.

We would be pleased to respond to any questions that the committee may have.

The CHAIRMAN. Thank you very much. I regret I was a little late in getting here. Did you open?

Mr. THOMPSON. Yes, I did. My name is Robert Thompson. I have appeared here before, Senator.

The CHAIRMAN. Do you have anything I missed that you want to tell me? I don't think Senator Hatch was here at the beginning.

Mr. THOMPSON. I think you arrived in time to hear the main points we felt should be made today. I have nothing to add other than to urge that this matter be looked at along these lines that we have urged, that a raise in the minimum wage at this time would have a particularly harsh effect upon unemployment, upon inflation; the tip credit would have a very difficult effect upon the restaurant industry. The reference to MacDonalds was not so much a suggestion that there was some kind of special interest here. It was a suggestion that this bill will drive the consumers to the self-service, quick-service restaurants rather than the restaurants where you have more employees waiting on tables and serving food to people, which means you eliminate jobs.

It is not a question of our having anything against MacDonalds.

The CHAIRMAN. They have more advertising here than anyone else, so if you want to use another name.

Mr. THOMPSON. I think even they would oppose this bill. But, a point that should be stressed is when you lower tip credit, or eliminate the tip credit you definitely will cause a loss of jobs in the restaurant industry, which is basically a high labor factor industry. And these people are basically unskilled or semiskilled people who will be hurt the most by such a change in the law.

We feel particularly strong on this indexing question because it ties to an unknown for the future. It puts Congress in the position of having, in effect, delegated away its power to set the minimum wage and to deal with the minimum wage periodically as it has done in the past.

It has been described, and I would endorse the description, as a kind of cop-out arrangement where you don't have to face up to it like you have in the past. We think this is a mistake. Congress should face up to the minimum wage periodically as you are doing at this time and as you did last year. We feel that this is not a time to change the minimum wage and it certainly is not a time to change the system with an indexing system.

Thank you, Mr. Chairman.

The CHAIRMAN. I believe you said, Mr. Thompson, that indexing accepts the inevitability of inflation or you said that was the idea. Is that accurate or is it that there should not be an increase in manufacturing wages? There would be no increase in the minimum wage.

Mr. THOMPSON. The answer to that is that you are going to have increases in the average manufacturing wages——

The CHAIRMAN. You are reflecting the inevitability on the wage picture.

Mr. THOMPSON. The point we are making is this: Hopefully, the increases in manufacturing wage will, in some way, be related to productivity that has not been necessarily true in the past but it should be true in the future. But, to tie the minimum wage to that increase without any relationship to productivity in the lower wage brackets will feed the inflationary factors which go into this cost-push inflation.

Dr. Carlson knows more about this type of thing than I do. But, this is the reason we say you are accepting the inevitability of inflation. You are building in inflation in effect.

The CHAIRMAN. Well, the indexing lags behind the increases in manufacturing wages by a good part of a year.

Mr. THOMPSON. I wonder if I could ask Dr. Carlson to comment on that.

Our feeling is that it would, in lagging behind, give an adequate thrust to the next round of wage increases and it would be a circular type of thing which feeds on itself.

The CHAIRMAN. I was told by people who sit at the bargaining table that in pressing for wages, union representatives never, never relate their demands to minimum wage. It is not part of their thinking.

The $5, $6, $7 an hour manufacturing employees' representatives do not relate to, as it is now, to $2.30 minimum wage when they are pressing their economic demands.

Mr. THOMPSON. Let me say to you, Senator, I myself sit at the bargaining table from time to time and represent management——

The CHAIRMAN. I have not.

Is that a factor that comes up at your bargaining table?

Mr. THOMPSON. Yes, sir, it does.

I think perhaps the reason that you have been told this is that the people with whom you have spoken perhaps were in the major industries where they are bargaining for hundreds of thousands of workers, like automobiles and steel.

When you get down to the average bargaining——

The CHAIRMAN. These happened to be representatives of plumbers and building trades.

Mr. THOMPSON. Of course, if you get into the construction industry, which even this bill does not pretend to get close to, you are in another world. Of course, they are in a $7 to $10 to $15 range. They are also in big high unemployment range when they get into those rates, and New Jersey is particularly hard hit by it.

Be that as it may, if you take an average collective bargaining agreement outside the construction industry, I think you would find that it covers a relatively small unit of employees of 100 to 150 people, and I think it could be very safely said that the minimum wage does come into play, at least in terms of maintaining differentials. And any time the minimum wage is raised, it comes up at the bargaining table, I can assure you in terms of raising the wages of the scale, the ripple effect, which I referred to perhaps before you came into the room, it definitely is a factor in bargaining. Even if it were not a factor in bargaining, the fact that the minimum wage is raised on an indexed basis provides a push to the index itself and therefore has the result of feeding inflation, because you pushed the cost up through the indexing of the minimum wage, and that, in turn, puts the pressure on at the bargaining table simply by the fact that the wage earners who are covered by collective bargaining agreements are under more stress because of the inflationary spiral.

It is an endless cycle-type thing.

Mr. NEEB. Mr. Chairman, if I might add, since we have taken an active posture in this thing, a number of people who are employers

have talked to us about minimum wage legislation. I have been shown contracts with clauses that indicate that the base rate in that industry is directly related to the prevailing minimum wage, and that all other wage rates in that same industry are directly related to that. And as the minimum goes up, the whole scale goes up.

The CHAIRMAN. Is that the restaurant industry?

Mr. NEEB. Not in the restaurant. These were firms outside the restaurant industry that came to me after we got involved with our opposition to this bill.

I can provide you with copies of the clauses if you like.

Dr. CARLSON. Let me follow that up.

Our survey shows, in answer to the question:

When the Federal minimum wage was increased from $2.10 to $2.30 an hour, did you find that it might be necessary to increase wage rates of above-minimum wage employees to keep a comparable "spread" in wages of different kinds of help?

Eighty-two percent said that they would have to increase above the minimum wage to keep the prevailing spread differentials. That is from a recent survey as to what this bill would do.

Also there is the 1958 study by the Bureau of Labor Statistics that shows that the increase in minimum wage did have linkage effect for wages above that in the sawmill industry. There have been surveys by a retail association that also shows the same effect. There have been theoretical studies that show that wage differentials are important to represent the differences in skills and that workers do push to make sure that their differentials are maintained.

It is clearly established that there is an impact above the minimum wage on wages, a cost push inflationary effect, that will be felt when the minimum is increased again following increases in manufacturing wages.

The CHAIRMAN. If we do not deal with the minimum here as a matter of law, these are the workers that are not, as a general proposition, represented in bargaining. They could easily be left out in this inflationary world that we live in without an increase.

You are not accepting the fact that $2.30, which is the present minimum wage, should be $2.30 forever, are you?

Do you not feel those people are entitled to get an increase, to meet their cost of living, and their costs are directed only at the necessities of life, none of the luxuries of life?

Are they not entitled to a wage increase?

Mr. THOMPSON. Mr. Chairman, we are not here contending that the $2.30 should be maintained forever, no, sir. We are contending that at this time it would be a mistake to raise the minimum because of the undue impact it would have on the low-wage-earning people. The very people whom you, I am sure, sincerely seek to help through a raise in the minimum wage, would be harmed by an increase in the minimum wage for reasons such as Mr. Neeb has outlined.

Industries and businesses which are on the minimum wage level or slightly above it find it necessary to eliminate jobs when you put in substantial increases in minimum wage at times like these when other costs are running higher, and they are finding it necessary to find ways to cut their costs, and a way to cut costs is to eliminate jobs and either

go to automation or, in the case of the restaurant industry, go to self-service, retail industries have gone to self-service stores.

Rather than help a person who is now making $2.30 by raising the minimum wage to $2.65 or $3, you are hurting him because you put him out of work.

So the minimum wage may be $3, but his wage is zero unless he can collect welfare, because his job is eliminated. This is the concern that we are expressing here, the elimination of jobs at a time when unemployment is too high and is getting higher, and particularly unemployment among unskilled people and young people who are the hardest hit by it already.

The CHAIRMAN. Your standpoint is that it is not the principle involved here of the lowest wage earners getting an increase in inflationary times, it is the timing of this legislation now?

Mr. THOMPSON. That is a major consideration, a major concern. It is not the only concern. Because when you get into the question of indexing, the question of altering the tip-credit system, the other provisions that are proposed, you are into another world again because you are changing the concepts of this law. We have very serious concerns over that.

The idea of indexing to minimum wage, we think, is a terrible mistake.

Dr. CARLSON. Let me indicate that the wage should not be looked at as welfare. There is a misunderstanding that somehow wage payments are welfare, and they are not. They are payments for a service provided for or a product purchased by a consumer.

The CHAIRMAN. Who is suggesting that wages are welfare?

Dr. CARLSON. Well, for instance, Secretary Marshall's testimony was indicating that we need to increase the minimum wage to make sure that the wage level is up to the poverty line.

The CHAIRMAN. Well, that is the minimum exactly so that people can work and earn and not be below poverty nor candidates for welfare.

Dr. CARLSON. If you want to handle welfare, do not handle it through the market mechanism because you end up with unacceptable unemployment, loss of employment and inflation.

The CHAIRMAN. You would say it is better to do it by welfare than the minimum wage?

Dr. CARLSON. I am saying one should not make the mistake that the minimum wage is welfare, because the consumer who is the ultimate determiner of what wages will be, what employers can pay, will not accept these higher costs and prices, will purchase other services or products or buy less and, consequently, there will be a loss of employment.

Mr. NEEB. I might add why do people pump gas today? It is not because they enjoy pumping, because it is a way to get gasoline cheaper, which is exactly the same thing. You are down to tradeoffs. The consumer has so many dollars to spend and will spend it in just so many ways. We have so many labor dollars, a firm like ours, and the costs are too high for labor and reaches the point where their is a tradeoff, then we have to find ways of spending capital dollars instead of labor dollars.

The CHAIRMAN. I will grant that. I would imagine labor costs are one of the incentives to more efficient production. No one is arguing with that.

Mr. NEEB. I would assume that oil companies—I cannot speak for them—our own industry, we would prefer, we view ourselves as being a service industry, and to the extent we must force the customer to do more things themselves, we are less of a service industry.

A service industry is labor intensive, and a service industry is the kind that provides the very people you are talking about with their only opportunity to get entry level jobs.

I believe some study research done by the University of Michigan showed that if someone does not get a good entry level job at an early stage in life, it costs them 20 percent of lifetime earnings. What we are talking about in our industry is eliminating busboys, dishwashers, because what we will do if it gets too expensive is we will increase the loading area and also maybe have waiters waiting on six people instead of five, and have more salad bars and dessert bars.

We estimate, if this bill passes as it stands in the Senate, we will raise our prices 6 percent because that is what it will take to cover this increase, not counting food costs or utilities or anything else.

On top of that, based on past experience, we know what the consumers will probably absorb in the way of price increases. To the extent they do not absorb it, we will have to cut employment.

We are estimating we will cut 6 or 7 employees per restaurant, and that is about 1,000 jobs.

Dr. CARLSON. The studies clearly show this is a very, very inefficient way to overcome poverty. I draw your attention to the Urban Institute's most recent study, and also a letter to the editor in the newspaper by Carolyn Shaw Bell, indicating that if, in fact, your objective is to overcome poverty, you have chosen one of the least efficient methods, the most costly method to do it.

The CHAIRMAN. I think that wefare payments, without any producduction at all, is probably the most costly for everybody.

Dr. CARLSON. But an increase in the minimum wage will not reduce welfare payments very much at all. In fact, as these studies show, many of the people that are being affected are getting their first job experience, and they are in a multiearner family, so the family itself is not in poverty at all.

Of course, that job experience is very important, as indicated by Mr. Neeb, for the career of that individual.

The CHAIRMAN. I wonder if we could get your view on the philosophy of the tip?

We know that we have lived with this idea that the tip as built in right now is part of the wages.

Mr. NEEB. That is correct.

The CHAIRMAN. That was not the beginning of the idea of gratuity for service, was it?

Mr. NEEB. We do not know exactly what the basic beginning was. I am told the term "tip" stands to insure prompt service, and it related to the concept that although all people may be equal, some people could be more equal by providing an incentive payment to someone. It has become part of the American tradition though to tip people and to view tip as part of the cost of dining experience.

I would only add, Senator, if a waiter serves you in our restaurant, you will leave him a tip. If you run into him on a street, you are probably unlikely to hand him $3 because he is wearing a costume. He gets

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that because he is in the restaurant, he is providing service to you. It is a part of our American culture, but it is something that is there within the culture, and what we guess would happen is that if you deny tipping to industry, which is what reduction or elimination of tip credit would do, then what would happen is we would have to look at the service charge and begin a massive industry effort to educate the American public on why we should use a service charge or why we should increase prices and have a no tipping policy.

One of the waitresses who testified in the House of Representatives said that she made $7—this is a gal from Minnesota—she said, "I make $7 an hour, including my tip. If you mess with this deal, and I lose the ability to get that tipped income, I will be darned if I am going to work in a restaurant for $3 an hour. I will go back to being a secretary."

The CHAIRMAN. This is not a prohibition on a gratuity for service——

Mr. NEEB. Senator, it is, in effect. The consumer only has so many dollars. They can only pay so much for dining. What happens is if we raise the price to offset this cost increase, you are looking at 30 percent increase in our labor cost the first year, and over 20 percent per year for the next 5 years. With that kind of labor cost increase, there is no way we can pass that on to the consumer.

What would happen is we would have to find some way to reduce the total cost of the eating—if you go back to my earlier example of $25, a customer plans to spend $25 a particular night, including the tip, we have to find some way of keeping it at $25.

If you make it a factor for us to raise the cost of that labor cost, we have to do something to reduce customer tipping effort.

Mr. THOMPSON. I think it can fairly be said that the employees in this industry, the food service industry, as well as the housing industry, such as hotels, are almost unanimously opposed to any effort by Congress to reduce the tip credit, because they are afraid that in reducing the tip credit, you will cause these industries to look toward other ways of dealing with their costs.

For example, a built-in 15-percent or 10-percent service charge is used in some places in lieu of the tip. That money goes to the employer or to the business to help defray the cost of operating. That goes directly into the business, not directly into the pocket of the employee.

So you find yourself depriving these employees who are rather highly paid, when you include their tips, of the tip itself, and perhaps reducing them as much as 50 percent in their earnings under the guise of doing them some kind of favor.

They are opposed to it. The industry is opposed to it because it does not want to go to the service charge approach or it does not want to go to the self-service approach, most of it. Yet here we find ourselves in the perfecting position of Congress which proposes to do something for people who do not want it done for them and actually are opposed to it.

The CHAIRMAN. What is your sample? I missed that.

Mr. THOMPSON. You have a situation where employees——

The CHAIRMAN. How broad was your sample?

Mr. THOMPSON. Everywhere we have sampled—Mr. Neeb's company, for example, employs thousands of people, the restaurant busi-

ness has done samples, and there are thousands and thousands of people in the restaurant industry, hotel industry—and nowhere have we found employees who favor any change in the tip credit arrangement.

Perhaps the unions which represent them purport to favor eliminating tip credit. I would guess they would. But they do not represent, in this instance, even the sentiment of their members.

We believe we can stand on that because actual waiters and waitresses have come in droves before committees of Congress to oppose this change in the tip credit.

The CHAIRMAN. I guess you are left in this position. You say you do not like it, you who own the restaurants; the workers who work in the restaurants do not like it; and I guess we are left being solely on the side of the consumer then.

Mr. THOMPSON. I do not think you benefit the consumer because you are going to up his costs.

The CHAIRMAN. How do you feel when you go into a place and see a service charge? Are you relieved of that conscience burden of feeling?

This is subjective.

Mr. THOMPSON. I personally take offense at it because it removes the option I might have to tip.

The CHAIRMAN. No, it does not.

Mr. THOMPSON. It does. I may leave a tip in every instance. I may not leave the same amount.

The CHAIRMAN. Then you think you are really doing something personal: giving a gratuity?

Mr. NEEB. The consumers, who are the general public, have indicated that they prefer the present tipping arrangement to the service charge or something that denies them the right to adjust how much they are going to pay, based on how service was received and how the experience went.

There is the question of how the steak was cooked and what the room temperature was——

Mr. THOMPSON. I think you overlook the proposition that the tip is strictly being a reward for good service—withholding of the tip is a punishment for bad service. I think you would find that to be more a factor, Senator, than the reverse.

Mr. NEEB. I would also add if you wanted to ask the unions about it—although it may be considered to be a voluntary matter—I believe they would say it is between the employee and the public. In Florida, they struck the hotels because they wanted guaranteed tips of $6 per hour, and I believe that speaks to how, on one side, they view the tip and its relationship to the employer, and what the employer provides in order to generate the tip for the employee.

The CHAIRMAN. We just took a little poll here.

Over on this side, I gather they have been more exposed to the continental system than this side—indicating—and this side likes the service charge, and this side likes the present system.

Senator HATCH. I think that is pretty typical.

Mr. THOMPSON. That would indicate at least 50 percent of the consumers are on our side.

Senator HATCH. He did not ask me for my opinion. I would have tipped the scales.

Mr. THOMPSON. We noticed that, Senator Hatch.

One thing I would like to bring out is a special ally to you fellows—that is really kind of an uncommon ally—and that is Ray Marshall.

His testimony that was given before this committee—he says on page 18.

> Another issue involves workers who derive a portion of their income from tips. Tipped employees are a group with a unique pay structure which involves compensation that combines wages and tips. Under existing law, tips received by these employeees may be counted as wages for up to 50 percent of the required minimum wage.
>
> Your bill would phase out this tip credit by 1983. The House bill would gradually reduce the maximum allowance for tips to $1 an hour beginning January 1, 1981. Our opposition to these provisions is based on two factors. One is the lack of information about whether this change would actually result in an increase in combined wage and tip earnings. A reduction in percentage terms of the tip credit may induce some employers to replace tips with a service charge. This could lower the combined wages and tips of these employees.
>
> The other problem is the substantial additional costs to employers of tipped workers, particularly in the restaurant, hotel, and motel industries. Taking into account the proposed new minimum wage levels, we estimate that these increased costs will run into the millions of dollars. Our figures project a cost of $65 million in 1978, $114 million in 1979, $172 million in 1980, and $185 million in the fourth year after the effective date.

I suppose that is consistent with what you have been saying here.

Mr. THOMPSON. Yes.

Senator HATCH. I suppose it is also consistent with your comments about inflation, as an inevitable aftermath of increase in minimum wage?

Mr. THOMPSON. Yes, sir.

Senator HATCH. I have been very appreciative that you have not come out completely against increasing the minimum wage because there may be many circumstances in which we should increase them. But you are indicating, I think, Dr. Carlson, in your statement with regard to Fair Labor Standards Amendments of 1977, in your personal statement, you stated that you would request a moratorium of 2 years, especially during this particular time where we are beset with all kinds of difficulties and problems. I read your statement and I find it to be very persuasive.

I would like to just make a few points, and I have to apologize to you because I was not here initially, but I think some of the points that you make, if true, are very persuasive points.

Let me give you an illustration.

When you summarized the economic impact that will result from increasing minimum wage to $2.65, you say it could result in a loss of approximately 400,000 jobs in the private sector.

Now, that is at a time of particular economic crisis, even though we seem to have a lull in that crisis, we nevertheless; all would admit, we are living in particularly difficult economic time, and that would include 387,000 jobs that might have gone to teenagers.

You are willing to stand with those figures?

Dr. CARLSON. Yes, sir; we stand behind those figures.

Senator HATCH. Incidently, Ray Marshall, in his testimony, agreed that there could be a loss of 90,000 jobs.

Now, why would there be such a disparity between Marshall's estimates and yours?

Could you explain that to us?

Dr. CARLSON. I do not know what basis the Secretary has identified the jobs lost. He has not given out the studies which reflect that. I have a suspicion that it is from Ed Gramlich's study. If it is, he is understating the job loss that Ed Gramlich indicated.

Senator HATCH. He is taking the lowest possible figure. You would agree with that?

Dr. CARLSON. This is the first time that a Secretary of Labor, in all fairness to Secretary Marshall, has indicated there is a job loss from an increase in the minimum wages. I think this is real progress, the fact that we are finally admitting to this bad effect of the minimum wage.

Senator HATCH. You would have to agree with me that even 90,000 job loss could be a major impact on our economic system?

Dr. CARLSON. Yes. That is just 90,000 for the first increment.

Under his estimate, there would be two or three times that figure by the time the 1980 increase is fully felt.

Senator HATCH. So we may be talking about 300,000 jobs under his own estimate which he characterized, as I understand it, as a minimum estimate?

Dr. CARLSON. Yes, sir.

Senator HATCH. If we increase yours, you are talking about immediate loss of 2.65 of 400,000 jobs in the private sector of which many would be teenager jobs, and that would also be multiplied as much as three times?

Dr. CARLSON. Yes.

By 1980, January 1, with an increase up to $3.15, it would be 1,977,000 jobs lost from the action of this bill.

Senator HATCH. What would be the effects on the total economy of the United States by 1981 should your figures be right, and I believe your figures are right?

Dr. CARLSON. I think we have seen it in the past. Everybody, all people who have studied the issue have lamented the fact that the teenage unemployment has increased to such a high level that it does not even show the entire problem. People are too discouraged to even look for a job. This is increased over time. We have more discouraged workers and more unemployment, as Bob Thompson indicated in his testimony, and these unemployment rates would increase and the participation rate would not be as high for teenagers and for unskilled workers. This is an antiminority, antiteenager and antismall business legislation.

Senator HATCH. Particularly antiminority.

Dr. CARLSON. Yes, sir.

Senator HATCH. I agree with you on that. I think there are a number of other authorities who will testify here that will also agree with you.

For instance. Walter Williams, in his study, I would like to see if you agree with him. He said, and we were talking about the importance of having work for these teenagers and young people as they come up in life, he said:

Early work experiences (1) teach individuals effective job search techniques; (2) teach effective work habits, such as promptness, respect for superiors and other work habits; (3) provide self-respect and confidence that comes from being financially independent or semi-independent; (4) provide the valuable

opportunity to make mistakes at a time when mistakes are not as likely to be as costly as they would be when the worker has dependents counting on him for a continuous source of income.

It goes on to say:

Inadequate work opportunities may also act as disincentive for many youths to continue their formal training. Inadequate youth employment options may also contribute significantly to criminal activity and other antisocial behavior. High youth unemployment has these effects which are undesirable from both an individual and social point of view.

Then he goes on to say:

"Quite naturally, at least two questions arise," and then he goes into it even more.

Do you disagree with any of these conclusions?

Dr. CARLSON. No. I agree.

Basically it tends to undermine the work ethic.

Senator HATCH. You state if $2.65 minimum wage is arrived at and enacted by the Congress that the States hardest hit by the minimum wage, a higher minimum wage, would be California, New York, Texas, Pennsylvania, Illinois, and Ohio.

Those are the major States in this country as far as population and economic environment is concerned?

Dr. CARLSON. That is correct, because of the large number of teenagers and unskilled workers that happen to reside in large populated States.

Senator HATCH. I think it is no small notion that big labor is desirous of having this minimum wage increased.

Do you believe that the average union worker is going to benefit from the increase in the minimum wage?

Dr. CARLSON. That is hard to tell because to maintain the differentials in jobs above the minimum wage, there would be pressure for having wages increased, to have some cost-push inflationary pressures not associated with collective bargaining.

Senator HATCH. That costs jobs oftentimes?

Dr. CARLSON. It could have an effect of fewer jobs at the higher level, let alone at levels of minimum wage.

Senator HATCH. Well, Walter Williams said:

Namely, the higher the wage for labor, the lower the demand for labor; and the higher the wage for labor, the greater the amount of labor offered. The truly unique aspect of the labor market is that people are not sold; only their labor services are sold.

When the wages for labor services rise relative to productivity, it does not necessarily follow that people will do without the service in question. On the contrary, people will seek substitutes for that resource whose price has risen. There is a vast array of substitutes. Some concrete examples with which we all are familiar will make this point clear.

Suppose the wage rate of labor, producing shoes, rises relative to its productivity. Shoe manufacturers can respond by: substituting machines for the labor (automation); substitute foreign for domestic labor by moving to countries where the labor is cheaper. Yet another response, that by consumers, is to substitute foreign-produced shoes for American-produced shoes. These responses have the net effect of reducing the demand for American labor that produces shoes.

Although I am not taken very much by the argument that the higher the wage of the labor, the greater the amount of labor offered and so forth—I think we have to pay good wages in the greatest society on Earth. Nevertheless, would you disagree with any of those conclusions of Dr. Williams?

Dr. CARLSON. No.

The payment for wages is based upon its productivity. If we want to improve wage level, we increase productivity of the worker. Clearly any time you increase artificially through Government action the wage level, you are going to find those kinds of subsidies we are talking about. We have been finding them. We are finding them at a period of difficult time, to have artificial stimulus, well, it comes particularly at a bad time on that score, too.

Senator HATCH. And we may be putting a lot of people out of those jobs and it may amount to over 2 million jobs by the year 1981?

Dr. CARLSON. Yes, sir.

Senator HATCH. The States hardest hit are all big union States except for Texas?

Dr. CARLSON. That is true in terms of numbers. But in terms of relative pain and suffering, your home States of Utah and other States that have below average wage levels would be hit hardest relative to other States. It just turns out to be that New Jersey, New York, California happen to be more populated States, so there would be more people totally affected.

Senator HATCH. While we are on this point, at about what percentage of total business in this society is small business defined by the SBA?

Do you have any figures on that or approximate figures?

Dr. CARLSON. That is very difficult because the definition SBA uses includes companies like American Motors.

Senator HATCH. Well, your definition.

Dr. CARLSON. You could say that certainly a fourth to a half of the business in this country is done by some reasonable definition of small business.

Senator HATCH. Some people have indicated that about 47 percent in hearings I have sat in on. Frankly, if it is as high as 47 percent, or approximately 50 percent, almost all small business would be seriously hurt regardless of which State in which this particular type of approach to wage prices——

Dr. CARLSON. On the average, small businesses would be hurt more than large business, no question about that.

Senator HATCH. You say that increased labor cost, especially for small business, would be by 1.7 percent as a result of just going to $2.65.

I assume, correspondingly, that would go up as we go to $3.15?

Dr. CARLSON. Yes.

Senator HATCH. Consequently, consumer prices would also go up, costing everybody——

Dr. CARLSON. The consumer price levels should be 2.7 percent higher on the average if this bill is enacted by 1980.

Senator HATCH. In your statement here today, you have indicated that teenage unemployment, nonwhites, amounts to about 40 percent.

What would the black unemployment amount to?

Dr. CARLSON. Nonwhite employment, well, last month was 39.4 percent.

Senator HATCH. OK.

That would include Chicanos and others that are non-Caucasian?

Dr. CARLSON. Yes.

Senator HATCH. What would be black unemployment?

Dr. CARLSON. I do not have that. Clearly it is very high, and especially as George Meany said yesterday, in our central cities, unemployment is very high, and this bill would add to that unemployment.

Senator HATCH. I have been led to believe that black unemployment is approximating 50 percent of young black youth in our society, both men and women.

Mr. THOMPSON. I think that is probably right if you are speaking of young blacks.

Mr. NEEB. If you look at larger cities, like the city of New York, I have seen figures like two-thirds of black youth unemployment, are on unemployment.

Senator HATCH. How would this bill affect black youth——

Mr. NEEB. I cannot talk to the economy in general. I can talk to our situation. That is generally the person we would be hiring for kitchen help. In many cases, they have not been sufficiently educated to be able to deal with the customer, and they work in the back of the restaurant. And that is the kind of job that in many cases is eliminated by this type of legislation.

Mr. THOMPSON. According to statistics which I recited prior to your arrival, and which are in our testimony, at the present time unemployment among black youth is 39.4 percent. Our estimate is that if the minimum wage is raised to $2.65, that figure will go at least to 45 percent.

Senator HATCH. That is incredible. Our youth feel they are being ripped off.

Dr. CARLSON. This is clearly a bill which is "anti" those discouraged from work because of higher wages the employers are forced to pay.

Senator HATCH. What would you suggest as a reasonable alternative to alleviate the problems created by this bill or at least reasonable amendments thereto?

Mr. THOMPSON. We have suggested a youth differential, Senator, which we think would attack this problem by giving employers an opportunity to employ young people. Who are, for the most part, unskilled workers, and who are marginal in terms of whether they are necessary to a business operation, if businesses are permitted to employ young people in their initial stages of employment, mostly during training periods at a lower minimum wage, then it would encourage businesses to employ these people and reduce this unemployment.

We think this is a very desirable social goal.

Senator HATCH. What about subminimum wage as well during periods of learning so that the young man or young woman can obtain some self-esteem from working, work habits are essential in the marketplace and, of course, the education and skills that are necessary to maintain a job, hopefully, is more than——

Mr. THOMPSON. Yes, sir.

Senator HATCH. You would think that the wage differential, a subminimum wage——

Mr. THOMPSON. I would think both would be desirable.

Senator HATCH. Would you have it across the board for everybody, 16 to 24 year old age group?

Mr. THOMPSON. Our position is it should be across the board. There should be no limit as to businesses or types of businesses.

Senator HATCH. In other words, we would not limit it to just, say, small businesses, for instance?

Mr. THOMPSON. No, sir.

Senator HATCH. Actually, General Motors might be a lot more willing to give people an opportunity to learn a trade that would ultimately make them a lot more money than the minimum wage if they had a youth differential or subminimum wage to begin with, to bring these people off the streets into the working place?

Mr. THOMPSON. Our feeling is if we are genuinely concerned—we are, and I am sure you are—with the problem of unemployment among youth, it makes no difference whether they are employed by large business or small business as long as they are provided with employment and an opportunity to learn skills and thereby command higher pay as they go along.

Senator HATCH. What you seem to be saying is it might be worthwhile for society to pay a little less to get incentives to employ these people so they can earn more than the minimum wage or a little more than minimum wage ultimately and be productive members of society.

Mr. THOMPSON. Yes, sir.

We repudiate the argument that this will take the jobs of their fathers or grandfathers. Obviously, you are not talking about the jobs of people who have work experience and skills which command higher wages than the minimum wage. This is a rather dramatic argument which has been made against the youth differential, which we consider to be unsound.

What we are talking about here is either preserving or creating new jobs for young people through incentives which we call youth differential or which could be called subminimum for learning.

Senator HATCH. Let me get back to Dr. Carlson.

One of the major points I feel you have made, Doctor, is that in your indication that we are going to lose somewhere between 400,000 and 2.2 million jobs, if I recall correctly, by 1981, beginning with 400,000 during the first year, and if $2.65 increase occurs and one of the major points is that the bill will mean an expansion of the public sector at the expense of the private sector, reducing private employment, and encouraging public sector employment.

Secretary Marshall has indicated a loss of a minimum of 90,000 jobs, but we will pick those up with public sector jobs.

What is wrong with that?

Dr. CARLSON. Public sector jobs on the average cost the American people $8,200.

Senator HATCH. Which is a lot more than the minimum wage.

Dr. CARLSON. That is true.

To go ahead and make sure you do not increase minimum wage, and let them have employment opportunities, they will have far more employment opportunities than any conceivable increase in public sector jobs program, and even public sector jobs is a very high cost way to employ people.

Senator HATCH. If you go a little bit further, today presently in the State, local, and Federal Government positions, we have almost 15 million people employed. That is what percentage of the work force approximately, about 89 million?

Dr. CARLSON. Ninety-four.

Senator HATCH. That would be about 15 or 16 percent somewhere around that area, total work force being employed, it would be about 20 percent——

Dr. CARLSON. Sixteen percent is the figure.

Senator HATCH. That would be employed by the Federal Government, State, and local government?

Dr. CARLSON. Yes.

Senator HATCH. If we keep increasing that, that makes the cost of average taxpayer going—well, has to escalate even higher or we have to reduce services in other social areas in our society?

Dr. CARLSON. Yes, sir, I believe that would be the case, that we would tend to be substituting public sector jobs for private sector jobs.

These are not necessarily desirable jobs by definition. They are dead-end jobs. They end after 1 year.

Certainly young people want to have a career profile ahead of them, not just a temporary job.

Senator HATCH. They may not be jobs that give any effective training, that help these young people to go out and go from there?

Dr. CARLSON. Yes, sir.

Senator HATCH. It becomes even a greater problem because there is no way of effectively going from one place to another, going from one point to another, I should say?

Dr. CARLSON. Yes, sir.

Senator HATCH. I think the rest of your points, I would commend to everybody, and I would ask that this complete statement prepared by the chamber of commerce, which includes various statements, be incorporated within the record, Mr. Chairman.

Could I ask one or two other questions?

Economists have long indicated that a 25 cent rise in minimum wage rates would increase teenage employment by about 3.5 to 5.5 percent. In a recent article, Mr. Gramlich suggests that a 25-cent rise in minimum wage rate would increase teenage unemployment from 1 to 6 percent, which would definitely be a conservative figure.

What do your studies show in this area, and would you elaborate on the details and methodology?

Dr. CARLSON. One thing one has to keep in mind, there are two figures one has to look at. One is unemployment figure, and that is where the person is actively seeking a job and cannot find one. The other is participation rate where he is so discouraged he does not enter into the work force and start looking for a job.

It turns out an increase in the minimum wage will discourage twice as many workers as it creates unemployment in workers. And, consequently, you cannot just look at unemployment rate, you also have to look at their participation rate. Discouraged workers as well as unemployed workers. A combination of those two is what gives you such high number of jobs lost from an increase in the minimum wage.

Senator HATCH. I think it would be helpful to us. I think this is a chance for us to really cover this subject. I think you have done an excellent job from what I have seen so far in covering the points that you made.

Concern has been raised that one of the unforeseen consequences of increases in the minimum wage may be its effect on crime. When

minimum wage goes up, unskilled, poor, and minorities are frequently the first ones to be removed from the work force.

With time on their hands and nothing to do, restlessness soon breeds crime. Restlessness, irritation, you might say, rejection by society seemingly to these young people breeds crime.

Now, in your view, and any of you can answer this, is there any validity to these concerns?

Dr. CARLSON. I used to be in charge of evaluation for the Federal Government as Assistant Director of the Office of Management and Budget and the Bureau of the Budget. As we looked at Federal programs across the board, we tried to see the relationship of increasing employment opportunities and decreasing crime—that is, the impact on the health and productivity of the individual. Clearly, the fact that you have idle people, discouraged people, especially among youth, does add to the probability of crime and does add to your other problems such as discouraging people to work and develop good working habits that are useful over an entire career, and also does affect clearly in terms of particular cases a person's productivity, which is much less by having longer periods of being discouraged without work and not having work opportunity. It is a very major trade-off for society to increase minimum wage for those who will benefit to sacrifice our young people, especially our minority young people, in the process.

Senator HATCH. Mr. Chairman, I've taken a little bit too long. I have one more question.

The CHAIRMAN. I've extended the time because your colleagues are not here, and mine are not here.

Senator HATCH. The Chairman has always been very gracious to me. I'm hopeful that I'm going to help you on some bills, and I'm hopeful you will help us——

The CHAIRMAN. How about on the cloture vote at 4 o'clock?

Senator HATCH. I will say this: I was led to believe the chairman was a terrible person before I got here, and I have found that he is not only a gentleman, but a very intelligent one, and one of my better friends in the Senate.

Mr. THOMPSON. One of these days, we may win him over. [Laughter.]

Senator HATCH. The whole question of productivity, in my judgment, has not been addressed by advocates of increased minimum wage.

Dr. Carlson, you are an expert in the area. I think you have done a lot of work here, and I would personally like the citizens of this country to have the benefits of your thinking.

Would you care to comment on this?

Dr. CARLSON. I have yet to see any studies, and I have heard analyses made that if you increase wages, you increase productivity in terms of entry level people, unskilled level people, and I do not see any studies to verify that. In fact, a study by the University of Chicago based upon a technique of measuring productivity clearly indicates that by that kind of approach you actually would have higher unemployment because of increase in minimum wage than you would by other techniques in measurement.

If they say you want to increase minimum wage by 20, 30, 40 percent, and productivity has been increasing by 20, 30, 40 percent, I do not believe it. I do not know anybody else who does.

Senator HATCH. There is no way that is going to occur. I think the fact of the matter is that unless we increase productivity along with an increase in wages, society really cannot continue its upward climb, and this country could not balance the budget by 1981, as the President said he would, by fiscal 1981.

Dr. CARLSON. That is a very good point. If we create more dependent people in our society by not giving them opportunities for work experience, we increase demand and make it more difficult for balancing the budget, and in fact you will not be able to obtain full employment of your resources when you price people out of the market, as the minimum wage does.

Senator HATCH. There is one thing that bothers me. Why is not the black community, other than Dr. Williams, Dr. Sowell and other leading black economists, really come out—I mean, in mass—because they are the people who are being very, very badly treated by these increases in minimum wage, especially with no provision for subminimum wage or wage differential. Why have they not come out and made the American people aware that they are being discriminated against, and badly mistreated, or are they doing so?

Dr. CARLSON. We do have indications, as in the Wall Street Journal about 6 months ago of a woman in Florida who was trying to help black teenagers find jobs, and came out very critical of an increase in the minimum wage that has occurred in the past and made it impossible for them to find jobs.

Clearly anyone who represents disadvantaged, unskilled minority people cannot support a minimum wage. It is clearly not in their self-interest.

Senator HATCH. That is not particularly a chamber of commerce position, that is just a matter of fact, is it not?

Dr. CARLSON. Yes, sir. Many of my comments have been personal here, because whether I was in a government policy position, or a private citizen, or with the chamber of commerce, an increase in the minimum wage is bad minority legislation, antismall business, and normally is a reflection that people do not understand how the marketplace works.

Senator HATCH. Your studies and background in education and knowledge of the Federal Government, its workings and wage structures, and other economic factors of reality, have formed the basis for your testimony?

Dr. CARLSON. Yes, sir. In fact, I'm really pleased to take note that the Carter administration was hesitant to increase the minimum wage, because they are fully aware of the adverse social consequences of an increase in the minimum wage. They had very strong pressure to go up to 60 percent of average manufacturing wages. To their great credit, they stuck to $2.50. I'm sorry they are weakening now and are supporting a larger increase.

Mr. NEEB. Senator, I can add a little bit to that in the sense that obviously I am not going to speak in terms of economic numbers. I deal in flesh and blood because of people actually working for us. I can tell you, it is no fun to let people go because you cannot afford to

pay them anymore. It was no fun to close the California office, to let people who worked for us up to 6 years, go. That is not a question of economics. It is a question of reality.

That is why we are here, that is why we are opposing this legislation.

Senator HATCH. I personally want to thank you all for showing up and preparing what I consider to be pretty persuasive testimony.

My personal feelings are that if big labor would support legislation to create jobs in the private sector and put people to work, they would have the greatest advocate in the world.

But I think this type of legislation really has hurt this country through the years, and above all it has hurt it socially, because young blacks in our society, or the young Chicanos, the young people in general, are fed up. They do not see any hope for the future unless they are the type that can go through high school, are going to college, and even then we are having difficulty providing enough jobs for college graduates, and we are finding in our society today it is tough to get people to enter the trades or to give them an opportunity to enter in if they could.

These are some of the problems we have seen.

I am personally pleased you have brought this testimony to us today. I hope it will have some effect not only on our committee, but on Congress as a whole. And I hope you keep it up.

Thank you, Mr. Chairman.

The CHAIRMAN. I just wanted to include a couple of things in the record here. I think you perhaps inadvertently misquoted Secretary Marshall when reference was made to his statement on employment effects of this minimum wage.

He said: "Our attitude is that the amount we contemplate, it would have an effect at most of about 90,000—at most, 90,000." I think Senator Hatch inadvertently said minimum of 90,000.

Dr. CARLSON. That is the first time the Secretary of Labor has admitted that unemployment is caused by an increase in the minimum wage.

The CHAIRMAN. Then he followed that by his estimate of those who would be young people who would be brought through the youth employment training program, where an effort is made to bring people out of unemployed status and bring them into situations where they learn a job and learn a skill.

He estimates that would be four or five times the numbers, at a maximum, he feels, which would lose jobs under the minimum wage inincrease.

Dr. CARLSON. In the first place, you would expect people to work who are 40 percent unemployed as opposed to compensating for an increase in the minimum wage. And second, his numbers are not supported by any of the scholarly studies. It is way, way too low. In fact, you are talking about, in terms of teenage unemployment, over 900,000 by 1980 that would be created by this bill, just additional unemployment, and less employment opportunities for young people. There is no program, none whatsoever, in the Government, nor do I know of any contemplated, that would even begin to offset that huge number.

The CHAIRMAN. I would also like to include in the record the statistical table from the Employment Standards Administration Divi-

sion of Evaluation and Research dated July 26, 1977, that shows over the course of 4 years, the estimated direct impact on restaurants of the House bill and Senate bill that is before us in the hearing.

Dr. CARLSON. Mr. Chairman, would you mind if we also were able to insert in the record our analysis, so that there would be some comparison? I might draw your attention to the fact that the Bureau of Labor Statistics has not done any scholarly analysis to show impact. They have done some rather superficial analyses.

The CHAIRMAN. Well, if you have something you want to include, we will have it in the record. I am not one to characterize it as scholarly or superficial. It is from the Division of Evaluation and Research department, the same kind of work that was done that you described when you were with the OMB, evaluation research. I will say they are not on either side of any economic equation when they come to their studies, and whether they are scholarly or not, that is for somebody else to decide. They do not come in the employer under contract to either side of any economic equation.

Dr. CARLSON. Having been an official in the central part of the Federal Government, clearly, operating agencies such as Labor Department have bias in favor of their constituency, such as organized labor.

Mr. NEEB. I might add, I do not think anybody in the restaurant business would argue that people will not continue to eat out more, because I think the only point I am trying to make is the question of whether there will be more labor intensive portion, which is table service or fast food.

The CHAIRMAN. You've made that point. We noticed that California figures show that the number of establishments has increased steadily over the years. That will be all part of the record today.

Is there any ball park estimate of the number of tipped employees there are?

Mr. NEEB. Yes, sir, Mr. Chairman. I have heard there are over 1 million tipped employees in the country today in the restaurant industry. Since 1966, when the restaurant industry was covered—by minimum wage—and more importantly, since the tip credit compromise was reached then, self-service segment of the industry has gone down as a percentage of total size of industry by some considerable amount. At one time it was about two-thirds of the industry. Now it is about one-fourth.

The CHAIRMAN. Let me ask you this: Have any estimates been made of what you would consider, from your viewpoint, beneficial results in the reduction in regulatory work of paperwork, of regulatory impact, if the credit was eliminated altogether?

Mr. NEEB. There is no advantage to us. We have to maintain payroll records anyway. Our employees are required by tax laws to declare their tips. If the Senator is concerned, on the one side, that the tipped employees may not be earning enough, I believe the Senate and the

House addressed that issue in 1974 when they placed a requirement on us to make certain that employees are in fact receiving sufficient tips to warrant tip credits taken.

The CHAIRMAN. You have to receive from the employee the record that the employee keeps?

Mr. NEEB. Yes.

The CHAIRMAN. That is a piece of paper. Is it a daily requirement?

Mr. NEEB. Yes; in our company it is daily.

The CHAIRMAN. If you do not relate your wage to the tip, would that piece of paper be eliminated?

Mr. NEEB. No; it would not.

The CHAIRMAN. Why not?

Mr. NEEB. Because it is also our timecard for the employee, and also the requirement that we check out credit cards and things of that sort as well.

It is a single document that serves all needs, and it is computerized for us. We process it all at the same time.

The CHAIRMAN. How about the regulatory impact, the administrative burden, would this mean that you would be relieved of any part of Government's enforcement?

Mr. NEEB. No; it would not. We still have to—in fact, at the present time, there is no difference from what we are doing today—we are required right now to show proof that every employee got paid at least the minimum wage for every hour they worked, for tipped employees, that is, a guarantee.

In other words, if on a particular day they only earned 10 cents in tips, we have to pay the balance in wages now of $2.20. Our computer is oriented to do that, just as most restaurants today use commercial services which provide that.

The CHAIRMAN. I would imagine there are a lot of people that are not computerized that this is a manual thing and not punched in with the figures.

Mr. NEEB. Even if it is manual, it is a very small problem. We have not always been automated ourselves. We have done it manually for years before that. It is not a big problem. It is handled in the restaurant.

The CHAIRMAN. You make me feel a lot better. We hear so frequently that any time there is governmental demand, there is a great deal of regulatory paperwork impact. Here we have something where there is not. Hallelujah.

Mr. NEEB. It is a lot better for us, we think, to handle paperwork than to be out of business.

The CHAIRMAN. Thank you very much, gentlemen.

Mr. THOMPSON. Thank you.

[The prepared statement of Mr. Thompson follows:]

Statement of the

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

on: Fair Labor Standards Amendments of 1977 (S. 1871)

to: Subcommittee on Labor, Senate Committee on Human Resources

by: Robert T. Thompson, Louis P. Neeb, Jack Carlson

date: August 2, 1977

STATEMENT
on
FAIR LABOR STANDARDS AMENDMENTS OF 1977 (S. 1871)
before the
SUBCOMMITTEE ON LABOR
of the
SENATE COMMITTEE ON HUMAN RESOURCES
for the
CHAMBER OF COMMERCE OF THE UNITED STATES
by
Robert T. Thompson
Louis P. Neeb
Jack Carlson
August 2, 1977

My name is Robert T. Thompson, a partner in the law firm of Thompson, Mann & Hutson of Greenville, South Carolina, Chairman of the Chamber's Labor Relations Committee and the Chamber's Treasurer. Accompanying me is Louis Neeb, President of Steak & Ale Corporation, Dallas, Texas, who will present our formal testimony. Also with me is Dr. Jack Carlson, Vice President and Chief Economist of the National Chamber, whose comments will follow Mr. Neeb's presentation. David Shapiro, Labor Relations Attorney of the National Chamber is also present.

The National Chamber is the largest association of business and professional organizations in the United States, and the principal spokesman for the American business community. It is a federation of more than 2,500 local, state, regional chambers of commerce and American chambers of commerce abroad, more than 1,100 trade and professional associations, and over 64,000 firms and corporations.

The Chamber appreciates this opportunity to express its strong opposition to the "Fair Labor Standards Amendments of 1977" (S. 1871).

I. INCREASE AND AUTOMATIC ADJUSTMENT IN THE MINIMUM WAGE

It is a sad commentary on the times to note that the original intent, back in 1938, of the Fair Labor Standards Act is being cruelly ignored. This intent was, of course, for the Act to establish a shield against low-wage competition and to aid low income workers. The ignoring of this intent has resulted in increased unemployment, disastrously so among teenagers.

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The $2.30 current figure for non-agricultural employees is more than adequate to fulfill the intent of the Fair Labor Standards Act. If this figure were to increase as proposed in S. 1871 to $2.65 and upward, the impact on the nation's economy would be devastating. Increased unemployment, higher inflation and escalating business costs and consumer prices would result and negate the efforts currently underway to aid our struggling economy.

Unemployment Consequences

There is little doubt now that excessive increases in the minimum wage rate result in increased unemployment--especially among low-wage workers, the unskilled and the young. To deny such results is an irresponsible refusal to see the facts.

The current nationwide unemployment rate is currently running close to 7%. Proposed increases in the minimum wage have been to a level as low as $2.50 and as high as $3.00. Although the $2.65 figure in S. 1871 falls in between, it would still result in unacceptable damage to employment.

Recent analyses evaluating the impact on employment of excessive increases in the minimum wage rate clearly show that, if the minimum were increased to anywhere between the low of $2.50 and the high of $3.00, between 2 million and 3.1 million jobs would be lost.[1/]

Increasing unemployment is not the way to help improve the economy. Any competent economist will tell you that the unemployed need to have their skills improved and their productivity increased. Education and job training are vital. Higher labor costs produced by excessive, artificially-set minimum wage rates will not lead to more and better jobs. Increased productivity is a goal overlooked by S. 1871.

Teenage Unemployment

The most shameful statistics we see each month are those for teenage unemployment. This past June, 18.6% of our teenagers were out of work. That is an unbelievable 1,765,000 youngsters.

Based on S. 1871's proposed increase to $2.65, our economists estimate that there will be 391,000 fewer jobs for teenagers between

the ages of 16-19. Overall teenage unemployment would go to 24%. Among black youth, where current unemployment is a devastating 39.4%, it would approach 45% if the minimum wage rate were increased from $2.30 to $2.65.

These most distrubing figures are further enhanced by three recent publications. First, in July a study entitled "Youth and Minority Unemployment" was released by four members of the Joint Economic Committee. It was prepared by Walter E. Williams, an Associate Professor of Economics at Temple University. From his research, Professor Williams concludes that.[2/]

> "The weight of academic research is that unemployment for some population groups is directly related to statutory wage minima. As mentioned earlier, the debate on the effects and the extent of those effects continues without full consensus. However, a consensus reached implicitly in all minimum wage studies, those of opponents and supporters, is that increases in statutory minimums do not increase job opportunities for the marginal or disadvantaged segments of the labor force."

The second major paper or study to consider the relationship between youth unemployment and the minimum wage was prepared by Edward M. Gramlich of the University of Michigan and published through the Brookings Institution. Mr. Gramlich clearly indicates that the minimum wage is too high for teenagers and a youth differential is a "desirable goal." [3/]

The third and final piece was prepared by James F. Ragan, Jr. who concluded in an article in The Review of Economics and and Statistics this past May,

> "Minimum wage legislation reduces youth employment; males, especially non-white males, are the hardest hit." [4/]

The clear inference to be drawn from studying the above papers along with the Bureau of Labor Statistics figures on youth unemployment is that a youth differential minimum wage must be enacted to reduce the number of jobless teenagers. No one can rationally argue that no job at all is better than some job paying less than the full minimum wage but yet providing job training and experience which later will enable the youthful worker to increase his marketability.

Cost to the Economy

An increasing rate of inflation is on its way to becoming a permanent part of our economy. This unnerving economic reality would be spurred on by excessive increases in the minimum wage rate which could become an annual event if the automatic "indexing" system proposed in S. 1871 is adopted.

The consumer, who always bears the final burden, cannot be continuously asked to pay higher and higher prices--but higher prices will be one result of the proposed rate increases.

Increasing labor, production, transportation, and marketing costs are all players in the economic game who would suffer from the robot-like, non-productivity related minimum wage indexing proposals.

An increased minimum wage will raise the general level of wages to maintain existing wage differentials relating to skills and other factors. The impact of an increase in the minimum wage on the whole wage structure has been described as the "ripple effect." This general wage-boosting effect greatly magnifies the inflationary impact on the consumer. The higher costs to the consumer bring about pressure by consumers for increases in their own wages, resulting in a continuation of the wage-price inflationary spiral.

II. INDEXING THE MINIMUM WAGE

The most dangerous and damaging part of S. 1871 is the provision tying minimum wage increases to a percentage of the average hourly earnings of manufacturing workers.

The concept of indexing is not really new. In 1975, the Consumer Price Index (CPI) was being suggested but was quickly tossed out when it was shown to be an inaccurate measure of the costs of living for wage purposes. Its misuse as a wage escalator would create "a vast engine of inflation, which once it began to roll, would continue to gain speed." Those words are from the 1967 annual report of the Council of Economic Advisers.5/

This year we are faced with the proposed use of an index known as the average hourly earnings of production workers on

manufacturing payrolls. This would result in an established built-in inflation to wages generally.

The whole concept of indexing the minimum wage is bad economic policy. The robot-like mechanism fails to take into consideration the underlying cost-push problems in our economy and furthermore treats inflation as if it were a permanent part of our economy.

It is the responsibility of Congress, mandated by the Fair Labor Standards Act, to review periodically the minimum wage law and relate it to the state of the economy. An indexed minimum wage would represent a Congressional abdication of responsibility in favor of a system out of touch with the needs of a growing population and an expanding economy.

The specific index being proposed today is a stimulus to inflation. This clearly is so because manufacturing wages have increased faster than average wages during the last ten years. Furthermore, the index includes the minimum wage rate in its computation; as the minimum increases, so does the index and as the index increases, so does the minimum, etc., etc., etc.

If this were truly an equitable and economically sound concept why then is there no provision for decreasing the wage rate, should the index for some reason go down?

III. TIP CREDIT

The elimination, or reduction to a fixed dollar amount, of the tip credit would result in severe economic consequences both to the applicable industries overall and the employees in particular.

Under the Fair Labor Standards Act beginning in 1966, tipped employees have been guaranteed the full minimum wage. The tip credit provision of the Act [Section 3(m)] does not provide otherwise. It simply permits the employer to apply a portion of the employee's tips, providing enough is earned in tips, to the hourly wage paid, up to 50% of that hourly wage. Therefore, the tipped employee can never earn less than the minimum wage.

This provision has enabled employees in the affected industries to earn, in many cases, much more than the minimum wage. However, if the credit is phased down and/or eliminated, the result clearly would be increased labor costs for the hotels, motels, and restaurants affected. These additional costs could result in higher food prices, and/or a reduction in staff, conversion to a fast food operation, or the imposing of a flat service charge.

The evidence is quite clear as to the effects of increasing the minimum wage while, at the same time, altering the tip credit system. A prime example is the state of California.

In January 1976, the tip credit was repealed in California and the minimum wage was increased to $2.20 and then $2.50 in October. A survey was conducted later in 1976 to review whatever impact resulted and the findings were disturbing. It was shown clearly that, as a direct result of the tip credit repeal and the increased wage rate, many restaurants cut about 50 hours from their work week and fringe benefits offered to employees were reduced. Many restaurants reduced staff including busboys, kitchen help and waiters and waitresses. Also, accompanying these results were increased prices and reduction of the size of portions served. An analysis based on the survey predicted that as many as 36,000 full time jobs could be lost in California as a result of the elimination of the tip credit and raising of the minimum wage.6/

The impact of eliminating or phasing down the tip credit is obvious. It serves only to create economic damage. Employees bear the brunt with fewer hours to work, lower take-home wages and perhaps no job at all.

The effect on the consumer, who in the end pays the increased prices, cannot be ignored, for one in every three consumer food dollars is spent away from home.

IV. SUMMARY

Increasing the minimum wage affects prices and employment, both on the negative side. Increased unemployment, especially

among teenagers, and higher prices to consumers are too high a price to pay for passing S. 1871.

Therefore, we urge the Subcommittee to reject not only any increase in the current minimum wage but also the indexing provision of S. 1871. Both would be unsound economic policy.

We urge that a "youth differential" minimum wage be enacted as a method of solving the disturbing and increasing unemployment among teenagers.

We further urge that the "tip credit" provision in the Fair Labor Standards Act remain unchanged.

Finally, we urge that additional hearings be scheduled on any further amendments to the bill that in any way affect wage rate and overtime exemptions under the Fair Labor Standards Act. This in all fairness would provide an opportunity for all sides to be heard and all possible impacts considered.

FOOTNOTES

1/ See, Federal Minimum Wage and It's Impact on the Fifty States, Dr. Jack Carlson, Chamber of Commerce of the U.S.; See also, New Estimates of the Effect of Minimum Wages on the U.S. Economy by Measuring the Impact on Productivity, and New Estimates of the Effect of Minimum Wages on the U.S. Economy by Updating Measures of Sensitivity to Minimum Wage Increases, by George Tolley, Philip Graves, Ronald Krumm, University of Chicago, June 15, 1977.

2/ See, Youth and Minority Unemployment, A Study: Joint Economic Committee Congress of the United States, Walter E. Williams, Temple University, July 6, 1977, p. 9.

3/ See, "Impact of Minimum Wages on Other Wages, Employment and Family Incomes," Edward M. Gramlich, Brookings Papers on Economic Activity (1976), II.

4/ See, Minimum Wages and the Youth Labor Market, James F. Ragan, Jr., The Review of Economics and Statistics, Vol. LIX, May 1977.

5/ See, Council of Economic Advisers, Annual Report, January 1967, p. 129.

6/ See, Minimum Wage Legislation and Employment, A Review of the Literature and Implications for the Restaurant Industry, Brimmer and Company, Inc., June 9, 1977.

ATTACHMENT

INDEXING THE MINIMUM WAGE

prepared by
Economic Policy Center
Chamber of Commerce of the United States

Indexing is a system of linking changes in a price or value with changes in the general inflation rate. The system has come into widespread use in some countries such as Brazil where inflation rates are so great as to disrupt the market system otherwise.

Indexing is based on the premise that inflation is a fixed and permanent part of the economy. It indicates a reluctance to deal with the underlying causes of inflation but places the emphasis on adjusting to inflation.

The Basis for Indexing

The question of putting the minimum wage on a system of automatic indexing is one that has been under consideration since 1949. At that time serious thought was given to the idea of linking increases in the minimum wage to increases in the cost-of-living index. The basic idea behind a linkage was to preserve the purchasing power of minimum wage recipients. This approach involves the welfare concept that the minimum wage should be set as an income floor for working persons and provide them with a basic standard of living.

If the minimum wage is justified on the basis of maintaining a minimum standard of living, the current proposal that would set the minimum at 60 percent or any other percentage of the average manufacturing wage is irrelevant, since there is no direct link to purchasing power, but only to wages in one part of the economy, manufacturing, which represents about 19 million or less than 24 percent of the total of 79 million wage and salary workers. This percentage has been declining more or less steadily for many years as our economy has become more service industry oriented. A fixed relationship of one part of the wage structure to another is undesirable. Wage rates are set in the market place by the relative and varying strength of supply and demand for various labor skills. In general, the more skilled the work, the higher the wage rate.

Using the minimum wages as an income floor for employed persons dates back to the depression when one of the overriding problems in the economy was poverty. In the past four decades we have developed a significant number of programs that are specifically designed to deal with the problem of poverty and this, therefore, reduces the need for the minimum wage to serve this purpose. For example, the Congressional Budget Office in its report Poverty Status of Families Under Alternative Definitions of Income noted that almost 78 percent of all multiple-person families that were designated below the poverty level during fiscal year 1976 were raised above that level after the benefits derived from various government programs were taken into consideration.

The Minimum Wage and the Wage Structure

The impact of the minimum wage on the entire wage structure may be significantly greater than previous studies have indicated in terms of raising pay scales for those above the minimum level. A survey conducted by the American Retail Federation of the last three minimum wage increases indicates that pay increases put into effect for employees above the minimum ranged from one-half to twice the dollar cost per employee receiving more than the minimum than it was for those employees that had their increases mandated by legislative fiat. This finding indicates a ripple effect far in excess of any earlier estimates--an almost one-for-one relationship between pay increases for those at the minimum to bring them to the new minimum and those above the minimum to maintain existing differentials for skill and experience. This, of course, is identical to the labor union experience in maintaining differentials. If the above experience is valid, a system of indexing the minimum wage to a high productivity sector, such as manufacturing, could result in a prolonged period of wage inflation.

The Present Indexing Proposal (S. 1871)

The indexing feature of S. 1871 could have significant ramifications for the entire economy because of the sheer number of persons that would be directly affected.

Wage and Salary Workers Affected by an Increase in the Minimum Wage

May 1976 Pay Rate	Total Workers Affected*	Cumulative Total	% of Total	Cumulative Percentage
Total Workers	79,000			
below $2.65	12,245	12,245	15.5	15.5
$2.65-$2.89	3,281	15,526	4.2	19.7
$2.89-$3.15	3,585	19,111	4.5	24.2

*Add 000

Source: U.S. Department of Labor, Bureau of Labor Statistics, Special Labor Force Report 195. These calculations are based on percentages found in Table 5 of the above publication and assumes that the non-response problem referred to in that publication does not bias the survey either up or down.

These figures indicate that, according to May 1976 Bureau of Labor Statistics data, the higher minimum wage feature of the current bill would result in a direct pay increase for almost one-sixth of all wage and salary workers on January 1, 1978 based on the current, almost universal, coverage of the minimum wage.

This finding, of course, does not take into account the increase that would have to be given to persons now earning wages between the current $2.30 minimum and the $2.65 minimum that would be imposed by January 1978 in order to retain differential pay rates for differences in skill and training of persons earning $2.30 vs those at higher pay scales. In addition, the BLS finding does not take into account the maintenance of differentials for those above the proposed minimum wage of $2.65 per hour.

If the wage rate were instituted at $2.65 per hour, based on May 1976 data, the pay of 9.8% of all manufacturing employees would be raised an average of 25 cents per hour or 11% in order to bring these workers up to the minimum. There would be a feedback effect of this pay boost. The resulting increase of 1 percent in average hourly pay in manufacturing would trigger an additional 0.5 percent increase in the minimum wage or another 25 cents per hour.

The significance of the increased minimum wage is, or course, not in the highly paid manufacturing sector but in the lower paid areas such as retail trade where over one-half of the workers in May 1976 earned less than $2.94 per hour. In that industry an increase to $2.65 per hour would result in almost 42 percent of those employees receiving pay increases. This could result in a significant shift in the method of doing business in retail trade which now employs almost 13 million persons.

Wage Differentials

An important factor that determines wage differentials is the output per worker as measured in the GNP accounts on a value added basis, that is, the increment to the value of a product that results from the specific worker's contribution to that product as it works its way from the raw material stage to the consumer. The value added per worker in manufacturing was in excess of $5,000 more than it was in retailing. Therefore, the idea of linking the pay in the manufacturing sector--one of the most productive--to pay for employees in significantly less productive sectors of the economy could result in significant labor displacement. This is because employers would be forced to increase productivity in such areas as retailing by even greater reliance on self-service, resulting in a reduction in their work force.

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I am Jack Carlson, Vice President and Chief Economist of the Chamber of Commerce of the United States. I am pleased to comment on the economic effects of the increase in the minimum wage as found in S.1871.

PROPOSED CHANGES

The minimum wage bill originally proposed in the House would have increased the minimum wage from $2.30 to $2.85 an hour, or 55% of the average manufacturing hourly wage thirty days after passage and a further increase to $3.04 or 60% of the average manufacturing hourly wage in 1976 would have occurred in January 1978. Thereafter automatic increases would have taken place to maintain the minimum wage at 60% of the average manufacturing wage rate. The tip credit of 50% and a youth differential minimum wage were not part of the proposal. The new compromise proposal calls for an increase to $2.65 effective January 1, 1978 with indexing at 52% of the manufacturing wage rate in January 1979, and 53% in January 1980 and thereafter. My comments relate to the compromise proposal for the size of the minimum wage and indexing and to the exclusion of the tip credit and a youth differential wage rate.

SUMMARY OF ECONOMIC IMPACT

Increasing the minimum wage to $2.65 could result in:

(1) The loss of 830,000 jobs in the private sector, including 391,000 jobs that might have gone to teenagers. This increase in unemployment would almost neutralize Federal programs to stimulate the economy which would add about 1 million jobs, many in the public sector. The states hardest hit by the higher minimum wage would be California, New York, Texas Pennsylvania, Illinois and Ohio.

(2) Increased labor costs, especially for small businesses, by 2.2%.

(3) Increased consumer prices by about 1.5%.

(4) Expansion of the public sector at the expense of the private sector by reducing private employment and thereby encouraging public sector

jobs, more welfare and other income security programs.

(5) Adding 391,000 more 16- to 19-year olds to the present 1-3/4 million currently out of work. Minority teenagers' unemployment would jump from 39.4% to 44%.

(6) Increasing wages for some workers at the expense of unemployment for others.

(7) Permanently building cost-push inflation into the economy by automatically increasing the minimum wage in step with increases in the hourly wage in manufacturing. The manufacturing wage, in turn, would be increased as the minimum rose, according to the well-established "ripple" effect of adjusting differentials among pay rates for different types of work.

RECOMMENDATIONS

Congress should defer minimum wage legislation for 2 years until the economy has more fully recovered and more Americans willing and able to work are employed. If a higher minimum wage is then desired and unemployment is close to 5%, Congress should increase the minimum modestly, certainly to no more than the average wage of those most affected--young men, women and minorities, who receive less then $2.50 an hour now. The tip credit should be maintained to continue the incentive for employers to encourage employees to report tip income fully for tax purposes. The legislation should also provide a significant youth differential minimum free from cumbersome red-tape.

EMPLOYMENT IMPACT

The present compromise proposal is recognition of the adverse effect on employment and labor costs of a higher minimum. Increases in the minimum reduce employment in two ways: First, by discouraging potential workers from searching for jobs and thereby participating in the labor force as defined by the government. This effect is the principal source of employment loss and it is ironic that unions, in other contexts, have deplored the plight of the discouraged worker. The irony is that this is a problem to which unions contribute by constant pressure for a higher legislated minimum; Second, by increasing the number of workers searching for but unable to find jobs.

The Government's economic stimulus programs would create barely enough jobs to compensate for the 929,000 job loss caused among teenagers by an increase in the minimum to $3.15 by January 1, 1980. Moreover, the losses from a higher legislated minimum are permanent, but jobs created by public works programs are temporary.

Based on a recent study done at the University of Chicago, the compromise minimum wage proposal that would raise the minimum in three steps and index it to the average wage rate in manufacturing would impact adversely on teenagers as shown in Table 1, below.

TABLE 1*

Teen-Age Employment Loss Due to Higher Minimum Wage

Teen 16-19	Current unemployment rate	Employment loss associated with 1% increase in minimum wage	Unemployment caused by raising minimum from $2.30 to $2.65 on 1/1/78 (thousands)	Cumulative unemployment caused by raising minimum from $2.30 to $2.89 on 1/1/79 (thousands)	Cumulative unemployment caused by raising minimum from $2.30 to $3.15 on 1/1/80 (thousands)
White	16.1	.355%	361	609	876
Nonwhite	39.4	.338%	30	51	53

*Estimates based on: George S. Tolley, Philip E. Graves and Ronald J. Krumm, New Estimates of the Effect of Minimum Wages on the U.S. Economy By Updating Measures of Sensitivity to Minimum Wage Increases, June 15, 1977, Chicago, Illinois.

Although the overall unemployment rate declined from 7.6 to 7.1 percent between June a year ago and last June, the teenage unemployment rate actually rose from 18.4 to 18.6 percent. The nonwhite teenager unemployment rate most recently has been 39.4 percent. This latter rate would be boosted to 44 percent by the proposed legislated increase in the minimum.

Entrance wages for teenagers are low because they need the on-the-job training that goes with a steady job. They benefit more than adults from such training and this benefit should be recognized as part of their initial career wage. Because teenagers are not closely competitive with adults, a youth differential would help their employment status without appreciably damaging the employment status of adults. Dr. Edward M. Gramlich of the University of Michigan concludes his 1976 study of the

minimum wage[1] by stating, "the youth differential seems a desirable goal."

AFL-CIO cited favorably this Gramlich study in a critique of the National Chamber's estimates of the unemployment and inflation effects of the original minimum wage proposal. Attached to this statement is the AFL-CIO critique and the Chamber's point-by-point rejoinder. Also attached is a table showing the employment loss, labor cost increase and consumer price increase of a $2.65 $2.89 and $3.15 minimum compared to a $2.30 minimum.

This concludes my testimony. I would be pleased to respond to any questions that the committee may have.

1) Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment and Family Incomes", Brookings Papers on Economic Activity, 1976 II.

COMMENTS OF U. S. CHAMBER OF COMMERCE
ON AFL-CIO CRITIQUE
June 30, 1977

AFL-CIO Critique

I. Introduction

On March 16, 1977, Dr. Carlson presented a statement on H.R. 3744, The Fair Labor Standards Amendments of 1977 before the Subcommittee on Labor Standards of the House Education and Labor Committee. In his statement, he charged that the Dent bill would "eliminate over 2 million full- or part-time jobs in the private sector--equivalent to 1½ million man-years," and "increase consumer prices by about 3%."

In addition to the overall U.S. estimates, Carlson presented detailed figures by color and age and sex of worker. In his state-by-state Impact Analysis, he presented not only National estimates but he projected figures on job losses, labor cost increases, and consumer price increases for each of the 50 states.

This fact sheet is designed to point out some of the more glaring errors in the Carlson document. These errors are so pervasive as to discredit both the Chamber testimony and the Carlson state-by-state document.

II. Documentation

While the Chamber document purports to be a "technical analysis", it lists no sources for the basic data. Nor, does it include a statement on methodology. It does cite as references an August 1976 paper by Jacob Mincer, "Unemployment Effects of Minimum Wages", Journal of Political Economy, Vol. 84, Number 4 Part 2 and a 1976 paper by Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment and Family Incomes", Brookings Papers on Economic Activity, 1976 II.

After a considerable amount of investigation, it appears that Dr. Carlson related the two studies cited above to employment numbers in Regional Economic Projections series (REPS 76-R-1), prepared by the National Planning Association, (June 1976). There is no reference to this series in the Chamber documents and the NPA was not aware that their data were

U.S. Chamber Comment

I. Introduction

On March 16, 1977 Dr. Carlson testified on H.R. 3744 before the Subcommittee on Labor Standards of the House Education and Labor Committee. In that statement he presented estimates of job losses from the AFL-CIO sponsored increase in the minimum wage. These estimates are disputed by AFL-CIO President George Meany. Mr. Meany on the one hand says we "plucked the numbers out of thin air" and on the other hand, he implies our methods were incorrect. The apparent purpose of the AFL-CIO critique was to counter the change in public opinion towards the view that the 35% black teenage unemployment rate and 17% overall teenage unemployment rates are in part a direct result of the minimum wage. This above-market wage is blocking those least able to compete in the labor market from available opportunities and preventing them from developing on-the-job skills that will lead to higher paying jobs in the future.

II. Documentation

The National Chamber made its documentation available to all those who requested it including the AFL-CIO. The fact is that the AFL-CIO has not done any research but has relied on research done elsewhere. The Chamber did not include extensive documentation in its testimony to minimize technical detail in a public presentation. However, our staff has spent several hours explaining our methodology to the Department of Labor and other organizations and would have been particularly pleased to do so for the staff of the AFL-CIO, if asked.

The Chamber reviewed a number of studies conducted on this topic. The study by Jacob Mincer in the Journal of Political Economy for August 1976 was used extensively, as were U.S. census data.

being used by the Chamber of Commerce but there appears to be no other possible source for the base figures.

III. Job Loss Estimates

Dr. Carlson used certain ratios developed in the Mincer article, cited above, to estimate numerical job loss. However, the estimates of job loss cited by Dr. Carlson are more than twice as great as the Mincer ratios would yield. Clearly Dr. Carlson derived his job loss estimate by applying Mincer's ratios to population rather than employment figures. This error results in more than doubling the job loss estimates.

Furthermore, Carlson relied heavily on the Mincer study as being the "best study available". The Chamber apparently defines "best" as that study which produces the largest adverse impact of minimum wages. The Gramlich study, also cited by the Chamber, presents estimates which are significantly smaller than Mincer's. Furthermore, Gramlich hedges on adverse effects of minimum wage legislation. Gramlich states: "The results . . . give one ambiguous but probably negative verdict on increases in the minimum wage (for teenagers), one fairly clear positive verdict (for adult males), and one very clear positive verdict (for adult females)."

Therefore, while Mincer's study indicates that a proposed minimum wage increase would mean job losses for women, Gramlich lists women as the "main beneficiaries" of minimum wage increases. In terms of teenagers, the Mincer study implies job losses which are 7 times as large as the Gramlich estimates. Both studies largely ignore the actual record of the 40-year history of the minimum wage legislation. They are based on theoretical models and the results reflect the built-in assumptions.

The Chamber has access to the studies of the National Planning Association and has identified one error in the NPA data relating to total employment in Alabama which may have been the cause of a higher estimate of job loss from the minimum wage in that state.

III. Job Loss Estimates

Under AFL-CIO interpretation of the Mincer study, raising the minimum wage to $3.04 per hour would result in a loss of 1.3 million jobs, a fact which they fail to mention in their paper. The job loss would be 1.8 million under the AFL-CIO backed bill which would increase the minimum wage from $2.30 now to $3.34 by January 1978.

We feel that the AFL-CIO's implicit recognition that the job loss would be at least 1.3 to 1.8 million is extremely damaging to their support of a higher minimum, quite apart from their views on the Chamber's unemployment estimates.

The Mincer study in our opinion was the best because it was the most comprehensive, covering the longest period of any study known to us, 15 years; it was conducted at the National Bureau of Economic Research, a highly reputable research organization; and it covered virtually all groups in the labor force. Several studies done by other people would indicate larger teenage job losses, but in the interest of consistency in our estimates we concentrated on this one study.

Mr. Meany refers to the Gramlich study but intentionally or not has distorted its conclusions. He quotes Dr. Gramlich on the results of his findings: "The results . . . give one ambiguous but probably negative verdict on increases in the minimum wage (for teenagers), one fairly clear positive verdict (for adult males), and one very clear positive verdict (for adult females)." But Dr. Gramlich in his article, which appears in the Brookings Papers on Economic Activity 2:1976 in the same paragraph went on to conclude (page 443): " . . . The most reasonable verdict is that teenagers have more to lose than to gain from higher minimum wages: they appear to be forced out of better jobs, denied full time work and paid lower hourly wage rates; and all these developments are probably detrimental to their income prospects in both the short

IV. Labor Cost Increases

Carlson gives no methodology but obviously based his cost estimates on adding the cost of a "ripple effect" to the direct cost of raising the minimum wage. The cost estimates, therefore, include the estimated cost of raising to the proposed minimum wage the wages of workers paid less than the minimum -- plus the cost of an arbitrary "ripple" effect for wages above the minimum. Carlson assumes this cost to be equal to 25 percent of the direct cost of increasing the wages of those paid less than the proposed minimum. If the so-called ripple effect is excluded, the Chamber's figure on labor cost increase becomes .7 of one percent instead of 2.9 percent.

This built-in ripple effect on wages throughout the wage structure is contrary to findings in all Labor Department studies. These studies showed indirect or ripple effects to be minimal and to be confined to those workers being paid at or within a few cents of the proposed minimum.

and long run. If one of the goals of minimum wage legislation is to eliminate sweatshop low-wage jobs for teenagers the law appears to be counterproductive."

"Again for adult males, there is a noticeable increase in part time employment, presumably mainly in the 20-25 and over 65 age brackets."

Dr. Gramlich goes on further to conclude (page 450): ". . . the youth differential seems a desirable goal." This is a conclusion with which Mr. Meany does not agree.

IV. Labor Cost Increases

The ripple effect on wages projected in National Chamber testimony is one with which the AFL should be very familiar, since it is one that has resulted in a great amount of strife within the labor movement and has caused strikes for the maintenance of differential rates for workers of differing skills.

In the job market it is the differences in skills, training and difficulty of doing a job that result in differences in the pay between jobs.

Minimum wage legislation will temporarily alter the differential between those at the lowest level and those at pay levels above the legislated minimum. For example, an increase in the minimum wage to $3.00 per hour would raise the pay of nearly 16 million wage and salary workers. It seems unlikely that the 12½ million workers earning between $3.00 and $4.00 would not seek to maintain their differentials based on their higher skills that resulted in their initial level of payment being above the minimum. This would apply almost all the way up the wage structure. BLS report No. 113 (March, 1958) showed the institution of a $1.00 minimum wage in the southern sawmill industry in 1956 resulted in an increase of labor costs about 25% more than the cost of bringing the lower paid jobs up to the minimum.

Our estimate assumes that the impact winds down as one gets further away from the minimum. This assumption is not as rigid as AFL-CIO contracts generally mandate in the way of maintaining skill differentials which would increase overall labor costs by substantially more than the 25% increase in the southern sawmill industry instance.

V. Consumer Price Increase

Carlson's estimates of Consumer Price Increases - or "inflation effects" - presumably are based on Gramlich's paper as Mincer has no such data. However, Carlson's projected increase in CPI resulting from the proposed minimum wage increase is more than double the Gramlich estimate.

VI. Conclusion

The paper released by the Chamber of Commerce demonstrates an unwillingness to accept official government studies of the historical effects of minimum wage legislation and an inability to use correctly those historical studies which are "best" in their view. The Chamber's numbers not only mislead, they are simply wrong.

V. Consumer Price Increase

The Chamber's direct inflation estimates were calculated in the following way: (1) estimates of direct yearly labor cost increases were derived from the BLS frequency distribution of workers by hourly earnings; (2) each worker's hourly earnings were increased by the difference between the class midpoint and the higher minimum; (3) this difference was multiplied by the product of 36.3 hours per week times 52 weeks.

The Chamber's indirect ("ripple") inflation estimates were derived in the same manner, except that each worker's hourly wage was increased by 27% of the class midpoint; only one-quarter of the yearly wage increase was estimated to be borne by the employer; and the CPI increase was assumed to be two-thirds of the total labor cost (direct and indirect) increase.

VI. Conclusion

Historical studies such as those of the Wage and Hour Administration of the Labor Department are of limited usefulness, because they do not isolate the effect of a change in the minimum wage by itself. By timing a minimum wage increase to coincide with periods of generally rising economic activity and employment, its supporters, using "historical" studies, have contended that the higher legislated wage has had little, if any, adverse effects. But the same supporters have no answer to higher teenage unemployment rates.

ATTACHMENT B

Employment, Labor-Cost and Price Effects of a Higher Minimum Wage in the U.S.

	Minimum of		
	$2.65	$2.89	$3.15
Employment Loss	835,000	1,445 000	2,054,000
Labor-Cost Increase	2.2%	3.7%	4.6%
Consumer Price Increase	1.5%	2.5%	3.1%

The CHAIRMAN. We welcome the panel of retailer associations.

Why do we not go down the line here and you introduce yourselves for the record.

STATEMENTS OF HARWELL W. PROFFITT, EXECUTIVE VICE PRESIDENT AND GENERAL MERCHANDISE MANAGER, PROFFITT'S DEPARTMENT STORE, ALCOA, TENN., NATIONAL ASSOCIATION OF CONVENIENCE STORES; RICHARD D. WOOD, JR., PRESIDENT OF WAWA, INC., ACCOMPANIED BY WILLIAM D. PATTON, STATE AND FEDERAL ASSOCIATION, REPRESENTATIVES OF VARIOUS RETAIL TRADE ASSOCIATIONS; SHELDON I. LONDON, ESQ., LAW FIRM OF LONDON & GOLDBERG, AND AMERICAN RETAIL FEDERATION; AND DONALD F. WHITE, VICE PRESIDENT, AMERICAN RETAIL FEDERATION, A PANEL

Mr. PROFFITT. I am Harwell Proffitt. I am representing the National Retail Merchants Association, especially the small independent division.

Mr. LONDON. I am Sheldon London. I represent various retail trade associations, including hardware, shoe, and photo marketing, specialty stores.

Mr. WOOD. I am Richard D. Wood, Jr., president of WAWA. Inc., a company which operates a chain of convenience stores in six States running from New York down through Maryland. I am here on behalf of our trade association, which is the National Association of Convenience Stores.

Mr. PATTON. I am William D. Patton. I am accompanying Mr. Wood on my right, who represents the National Association of Convenience Stores.

Mr. WHITE. I am Donald White, vice president, American Retail Federation.

I intend to summarize the statements of my colleagues. All of them are members of the national association.

The CHAIRMAN. You are the umbrella organization?

Mr. WHITE. Yes, sir.

The CHAIRMAN. Mr. Proffitt, you are going to start off.

Mr. PROFFITT. My name is Harwell Proffitt. I am president of Proffitt's Department Store, which is located in Alcoa, near Knoxville, Tenn. Proffitt's operates four small department and four small specialty stores in the area.

I have worked in the retail industry for many years and I believe I am keenly and sometimes painfully aware of the many problems facing all sizes of retail enterprises.

I am testifying today on behalf of the National Retail Merchants Association. I am a memmber of the Independent Stores Board of Directors of NRMA and am a past chairman of the board.

NRMA is a voluntary trade association whose members operate approximately 35,000 retail outlets throughout the United States. While NRMA's membership includes all of the nationally known chain and department stores, over 75 percent of our membership are small, independently owned retail establishments which have annual sales under $1 million. Among our members are numerous modest,

and family-operated stores, some of which are located in very rural areas.

Our industry believes that a 15-percent increase in the minimum wage effective at one time on January 1, 1978, and successive annual increases which are expected to raise the minimum wage a total of 37 percent in less than 2½ years, are not in the best interests of the country, and are not justified.

In addition, we cannot understand why the minimum wage bill before this subcommittee incorporates a system of indexing, which provides for yearly hikes in the minimum wage without any prior consideration by the peoples' representatives as to whether each particular increase is justified and desirable.

Because NRMA believes that adoption of a system of indexing might well have a harmful impact on the economy in general, and on retailing in particular, my comments today deal primarily with that subject.

To my knowledge, there has never been a detailed study undertaken to determine the likely economic, social, and political impact of indexing the minimum wage. Indexing has simply been offered as a supposedly painless alternative to the recurring headache of deciding whether an increase in the minimum wage is warranted. NRMA submits that such a rationale is insufficient to justify an approach which has had disastrous effects elsewhere. We believe that a study of indexing is an absolute necessity if the Congress is to make an informed judgment about its desirability. Such a study should answer some very fundamental questions. I would like to pose just a few of these questions at this time.

First, there has been no study as to the likely inflationary effect of an annual substantial increase in the minimum wage. There is no doubt that every increase in the minimum wage is, to some extent inflationary. Indeed, it has been pointed out by Finis Welch, professor of economics at UCLA, that if the minimum wage is indexed to a percentage of average manufacturing earnings, then the simple act of raising the minimum wage, which must perforce raise average manufacturing earnings, will create a self-perpetuating inflationary spiral. More important is the need to know just what the inflationary effect of inexorable hikes in the minimum wage is likely to be in times of already heavy inflation. Unless and until an unbiased, thoughtful, and thorough study of the matter demonstrates that indexing will not exacerbate such inflation, indexing should not be adopted here.

A second important question which seems to me to warrant an answer prior to adoption of indexing is what effect indexed annual increases are likely to have on entry-level job opportunities. The recent looting which occurred in New York during the blackout has been blamed by many on the high rate of unemployment, particularly among young people and minority groups—where unemployment runs as high as 40 percent.

Increasingly, those who seek to find entry-level jobs for teenagers have come to oppose any rise in the minimum wage at this time because of the rise in unemployment among the young which seems inevitably to follow all minimum wage hikes.

In my own experience at Proffitt's, each rise in the minimum wage has meant layoffs, with entry-level jobs usually the hardest hit, as well

as curtailed hiring of entry-level personnel, and thus fewer job opportunities.

At a time when excessive unemployment concentrated among the young and minority groups is a critical national concern, the potential impact of indexing on this problem should be studied prior to enactment of an indexed minimum wage.

A third question needing to be answered prior to adoption of indexing is why use an index based upon average manufacturing earnings and have this index apply to all sectors of the economy?

The fact that it may be a somewhat more stable index than the Consumer Price Index is hardly a sufficient justification. Manufacturing workers account for only 24 percent of all employees in the United States. They are not necessarily typical of employees in any other industries. The economics and employment conditions of the retail industry, for example, bear little relationship to manufacturing, yet under indexing, retailing would be forced to live with an index set at a fixed percentage of the manufacturing wage.

There are three points which have occurred to me since writing the original document which I am presenting today.

The first and most important is that you gentlemen assume by the very nature of this bill that all small retailers have the ability to pay an automatic increase each year.

I cannot state strongly enough that small businessmen do not automatically have the ability to pay an increase each year.

Second, due to the size of the automatic increase proposed each year, you will virtually put an end to any merit wage increase that a small retailer can offer. As a practical matter, my entire payroll would be indexed by your legislation. This is so because all employees expect to get at least the same percentage increase. They think they are entitled to it, and I agree with them.

Third, most small retailers are full service stores. If we have an index that requires the increased wage cost that this bill requires, we will be forced to cut back drastically on our services. A good example that is occurring in our area is the filling stations.

I do not know about you, Senators, but I do not like to go into a filling station and check my own oil and wash my own windshield in my good business suit.

The CHAIRMAN. I am with you 100 percent.

Mr. PROFFITT. The same thing is going to happen to department stores. You are going to force us to go to more and more self-service, which means we are going to lose the last competitive advantage we have against large retailers—our personal service.

In the past, Congress has reconsidered the minimum frequently, and whenever a balancing of economic, social, and political considerations has indicated that a hike has been warranted, one has been forthcoming.

Congress has invariably taken into consideration such elements as the current and projected rates of unemployment and inflation, the level of economic activity in the country, and the like before reaching a decision as to what the minimum wage should be. Moreover, the fact that Congress has, up until now, shown little concern for the levels of average manufacturing earnings in considering minimum wage increases is, I think, a reflection of the limited relevance of such a statistic.

If it enacts the present indexing proposal, Congress will have abdicated its legislative responsibility to a computer which measures only a single narrow economic factor, and which fails to take into account obviously relevant considerations such as the rate of inflation and unemployment. Instead of periodic, reasoned decisionmaking based upon a balancing of all pertinent considerations, we will have made our decision that changing economic and social conditions shall henceforth mean nothing. Come good times or bad, inflation or not, high unemployment or not, the minimum wage shall be 53 percent of average manufacturing earnings.

Some people have supported indexing on the basis that traditional minimum wage decisions are subject to political pressures and that indexing will relieve the Senate and the House of this pressure.

This view is mistaken since, in any case, we can be sure if indexing is adopted there will be continued political pressure to raise the percentage of average manufacturing earnings from 53 percent to some higher figure, to include overtime earnings and fringe benefits in the measure of average manufacturing earnings, et cetera.

In the few minutes I have remaining, I would like to make brief reference to a few problems which have arisen in the retail industry in the past as a result of minimum wage increases and which I foresee arising in the future in more serious form if indexing is adopted.

Retailers operate in a highly competitive marketplace. As you probably know, because of this keen competition, the profit margins of the general merchandise retail industry are among the lowest in the business world. In addition, retailing is a highly labor intensive industry; payroll expenses represent, by far, the largest single item of net operating expense, constituting more than 50 percent of net operating expense as an overall average for the industry.

In the past, each substantial increase in the minimum wage has had a significant negative impact on profit margins, which retailers, because of already thin profit margins, could not sustain without instituting certain operational changes. Whenever the minimum is increased, there is a corresponding upward movement of the wages of the rest of the work force, as store management must shift the entire wage scale to maintain wage differentials between newly hired workers and the more experienced, more productive workers. Because of the vigorous competition which exists in the industry, retailers are not able to recoup the full costs of boosts in the minimum wage by passing them on to the consumer in the form of higher prices.

Since payroll is by far the largest operating expense and the only item that can be trimmed to any significant degree, in the past retailers have met the increased costs of a rising minimum wage by changes in the sizes and composition of the work force. With each boost in the minimum wage, more and more retailers have been obliged to curtail hiring, reduce existing overall employment levels and accelerate the continuing shift in the composition of the industry work force toward part-times.

Many smaller retailers have been forced to reduce business hours, thus cutting working hours for their staffs—so that many employees reap no financial benefits at all from increased rates of pay. Stores have also been forced to lay off staff members, to introduce self-service systems and, in some family run operations, to dispense totally with non-family member employees.

In 1979, my company plans to open a new store. As with all small retailers, we will be borrowing money to expand. At the request of our bank, we asked the accounting firm of Haskin & Sells this past spring to make a 5-year profit and loss projection. After we received this projection, we calculated the effect the proposed indexing bill would have on our profitability.

In 1979, our profits would be cut by 25 percent; in 1980, by 40 percent; and in 1981 by 45 percent. These figures include only a 6-percent increase for mangement, considerably less than increases the bill would provide for our salespeople.

I should emphasize to you that these projections are all based on the continuation of our store as a full-service store. Obviously, we cannot afford losses of these magnitudes. The only solution we know of is to reduce direct personal services to our customers, and that means reducing our payroll, by cutting store hours, and reducing the number of people we employ.

It is true, of course, that knowing that there will be annual increases in the minimum wage will permit retailers to plan ahead and to attempt to devise ways to cope with these increases. But I confess that I am at a loss as to how to cope without accelerating the unfortunate trends already in evidence in the industry.

Thus, I think the future will bring continued reductions in full-time jobs opportunities, introduction of more and more self-service departments, and even whole self-service stores, less hiring, in short, a continuing decline of employment in an industry which has traditionally offered entry-level opportunities to the unskilled.

In sum, then, NRMA, on behalf of the retail industry which employs in excess of 13 million Americans, urges that the proposed increases are excessive, and further that the question of indexing is an appropriate subject for study either by legislative committees or by a Presidential Study Commission, consisting of Government representatives, economists, sociologists and management and labor representatives.

Such a study should determine whether indexing is an effective vehicle for providing increased income for our lowest paid and unemployed workers as well as give careful consideration to the impact of indexing on inflation and unemployment. A study of indexing is long overdue and a necessity before a national experiment with an indexed minimum wage is undertaken.

I want to thank you for the opportunity to appear before you today to express the views of our association. We hope that you will give these views serious consideration in your subcommittee deliberations.

Thank you.

The CHAIRMAN. Thank you very much.

There is just one correction in our record here. We have you listed as being from Alcoa, Tex., and it is Tennessee, right?

Mr. PROFFITT. Did I say Texas?

The CHAIRMAN. You said Tennessee, but our information was Texas.

Mr. PROFFITT. This town was named after the Aluminum Company of America many years ago when they first came there. It was a company town originally.

The CHAIRMAN. You made that observation on self-service gasoline station. I agree with you completely.

I am just wondering when there are going to be enough people like you and me that are going to turn that around? I have wondered that, and I learned that there are examples around here returning to what it was.

Mr. PROFFITT. I must say at least where they have service, they will clean the windshield now. Now there is a real distinction between filling stations and service stations.

A filling station does not do anything, but a service station does. We cannot get a shoeshine anymore either. That is getting to be a tough thing.

The CHAIRMAN. Thank you very much.

What part of Tennessee is that?

Mr. PROFFITT. It is in the eastern part near Gatlinburg. We join the Smokey Mountain National Park. We are in the eastern part of the State.

The CHAIRMAN. All right.

Mr. WOOD. I have a written report which I would like to submit for the record. Rather than read it, I would rather make a few comments on it which I hope will make it go quicker.

The CHAIRMAN. You did identify yourself earlier. You are with the WAWA?

Mr. WOOD. Right.

I am here today on behalf of NACS, National Association of Convenience Stores. They have 515 member companies which represent 29,000 stores throughout the country. A convenience store is a small grocery store that is open 16 to 18 hours a day, handling grocery, dairy, bakery, snack food, and other high demand items.

I would like to feel that everybody identifies with the WAWA Food Market, but I am sure even more people identify with the Seven-Eleven Stores, which is one of the members of NACS, and——

The CHAIRMAN. How about Cumberland Farms?

Mr. WOOD. Cumberland Farms is also a member of NACS.

Out of the membership, most of our members operate only one or two stores.

With few exceptions, our members are locally owned and operated. As I am sure you recognize, our members' stores basically are in direct competition with the supermarkets, and "convenience" for the consumer in terms of hours and location is the fundamental way we compete. Last year, gross sales for the entire convenience store industry totaled approximately $7 billion. NACS represents about 90 percent of the industry in the United States in terms of gross sales.

INCREASES CONTEMPLATED BY S. 1871

The enactment of S. 1871 would have a devastating impact on the convenience store industry and its employees. Unlike earlier adjustments in the minimum wage—which have been 10 cents and 20 cents an hour—S. 1871 proposes to raise the minimum from its present $2.30 an hour to $2.65 an hour, effective January 1, 1978.

That would be a whopping 15-percent increase, contrasted to the 5-percent increase which took place January 1, 1975, and the 9.5-percent increase which went into effect January 1, 1976. When you add the additional increases of about 10 percent on January 1, 1979, and 10

percent more on January 1, 1980, as proposed in S. 1871, the minimum wage in little more than 2 years would be 37 percent above the existing level.

To illustrate the impact on convenience stores of minimum wage increases of that magnitude, let me use my own company as an example.

We are based in Pennsylvania and already pay our employees, even part-timers, substantially more than the minimum wage. On the surface, an increase in the minimum wage would not affect our company or its employees.

But if the Federal minimum wage were to go up to the extent contemplated in S. 1871, our company's average wage rate inevitably would rise due to the upward push exerted on all wages when the minimum is increased. Realistically, we could anticipate a 35-percent increase in our company's store wages, paralleling the 37-percent increase in the Federal minimum. An increase in labor costs of that magnitude—even after our present store income were adjusted upward to reflect anticipated price increases based on future inflation—would cause many of our stores to sustain a substantial loss instead of making a profit as they do now.

Most other convenience store companies, particularly smaller ones, would be similarly affected. For those companies whose average hourly store wage is close to $2.30 per hour—a not uncommon situation in the South and Southwest—the adverse impact of S. 1871 would be especially severe.

If basic wages were to go up as high and as fast as contemplated in S. 1871, we, as retailers, would have only three basic alternatives available to us:

(1) Raise retail prices on food and services to offset the additional overhead of increased wages.

(2) Reduce the number of employees and strive for more production; and

(3) Close marginal stores that do not generate enough volume at the new level of markup to be profitable.

As for the first of these alternatives, I, myself, do not see how raising retail prices sufficiently high enough to offset a 35-percent or more increase in wages would be unrealistic for most convenience stores. Right now, for example, labor and its directly related costs constitutes about 50 percent of the total operating expenses of many convenience stores, not including the costs of goods. If these stores were to attempt to raise retail prices to offset the increased labor cost S. 1871 would entail, above and beyond increases caused by other inflationary factors, the prices for our products and services would be almost prohibitive for many consumers, and convenience stores would be placed at a serious competitive disadvantage.

The second and third alternatives open to store operators—that is, closing marginal stores and reducing the number of employees in stores that remain open—are equally unrealistic from the point of view of employees who would lose their jobs. At least 20 percent of the 29,000 convenience food stores in our country presently are marginally profitable. That would be 5,800 stores which would face closing if the extra burden of a 35-percent increase in labor and labor-related costs were imposed. At an average of 5 employees per store, 29,000 employees would lose their jobs. And these are, for the most part, women, youth,

and many who would otherwise be unemployable. The ripple effect on support personnel, of course, would further impact this situation.

And let me emphasize that a 20-percent figure for store closing is probably very conservative. One or our association's members has calculated that a minimum wage of $3 would directly affect over 60 percent of its 3,700 store employees not counting the escalation effect on the wages of those making about $3.

Taking just its present breakeven point—that is, assuming no profit—it calculates that potentially 900 of its 1,200 stores would face closing if S. 1871 were enacted as written.

In addition, for that company to maintain the same current margin for its low-volume stores, it would have to terminate 319 additional full- or part-time people. When it adds the additional 1,400 staff and administrative personnel who would also wind up being laid off if 900 of its stores were closed, it comes up with a total of approximately 4,000 lost jobs as a result of S. 1871. Aside from the crippling impact on the company itself, the impact on its employees would be staggering.

In sum, Mr. Chairman, the minimum wage increases contemplated by S. 1871 could sound the death knell for a large number of convenience food stores. It would force mass layoffs and could cause some companies to go completely out of business. And the plight of our industry and our employees would, in the long run, work to the detriment of consumers as well.

As I have already mentioned, convenience stores basically are in competition with the supermarket industry for the consumers' food purchases. At the present time, the convenience industry does about 4 percent of the Nation's retail food business. Until now, it has been anticipated that the convenience store segment of the retail food business would do between 8 and 10 percent of the retail foodstore business by the early 1980's. This is because our industry thus far has been able to compete successfully with the larger stores.

Our "close to home" service has been able to attract customers that the supermarket operators would like to have back. But the imposition of the minimum wage increase contemplated by S. 1871 woud take away the competitive strength that we presently have against the supermarkets, and cause a number of convenience stores to close and companies to fail. For the consumer, the demise of this segment of the retail food industry not only would mean less service and less convenience, but higher prices in the long run as well.

"Indexing" all minimum wages to average manufacturing wages:

Aside from the problems we have with the size of the minimum wage increases provided in S. 1871, the convenience store industry strongly objects to the concept of indexing the minimum wage for all employees to the hourly earnings of production workers on manufacturing payrolls. We believe such a proposal not only is economically unsound but is manifestly unfair.

If it is adopted, we predict it will wind up harming many of the very workers it ostensibly is intended to protect.

Indexing the minimum wage for employees in retail enterprises, service industries, agriculture, and all other segments of our economy to an automatic percentage of the hourly rate for production workers on manufacturing payrolls will mean, in effect, that a relatively small handful of labor union negotiators and manufacturers' repre-

sentatives will be establishing—directly or indirectly—minimum wage rates for our society's entire work force. If it adopts this system, Congress will have stepped out of the picture as a practical matter except perhaps to legislate future increases in the indexing percentage.

The present system—whereby the Congress weighs the views of various interest groups such as those assembled here today and then establishes a minimum wage which balances the various economic, political, and social forces involved—will be gone. The service industries, retail trade, agriculture, and others, no longer would have a forum in which their voices can be heard before the establishment of minimum wage rates which could put some of them out of business.

In addition to being unfair, indexing all minimum wages to manufacturing wages would be economically unsound. It would be inherently inflationary in two ways.

Automatically higher minimums would create constant upward pressure on wages of nonminimum workers and ultimately result in wage increases all along the line. In addition, increased minimums would necessitate retail price increases which, in turn, would create pressures for compensating higher wages in manufacturing as well as elsewhere. The upward spiral would never end.

Indexing would mean loss of jobs in labor-intensive retail, service, and agricultural enterprises—and thereby would harm many of the very people the concept supposedly is intended to protect. The convenience store industry, for example, presently employs many part-timers who are often unskilled youths or senior citizens. But if wage increases are forced on the convenience store industry, as proposed in S. 1871, many of our members would have no alternative but to lay off many of these employees and rely on fewer permanent full-time workers.

Attempting to equate retail enterprises—such as convenience stores—with manufacturing is impractical and economically unsound because of a number of fundamental differences between them. Manufacturing is a more capital-intensive operation. Retailing provides a lower level of return on investment and sales. Its lower capital requirement makes entry to newcomers easy and, correspondingly, makes competition intense.

In addition, the convenience store work force simply cannot be compared to the production work force in manufacturing which is highly organized and is more permanent—that is, has more seniority—more skilled and highly trained. All of these differences make it totally impractical to attempt to equate retailing and manufacturing by an automatic wage index.

Mr. Chairman, our association strongly recommends that the Congress retain its present practice of periodically reviewing minimum wage levels and establishing minimum wages on the basis of economic, political and social factors as they exist at that time. We believe indexing as a concept should be abandoned.

We do not object to the proposed increase to $2.50 per hour suggested by the administration just 4 months ago, but as indicated earlier in my statement, we feel the $2.65, $2.89, and $3.15 increases contemplated in S. 1871 go too far too fast.

We also support the suggestion that a youth differential provision be written into the minimum wage law to permit employers to hire and pay young workers under 18 years of age a stipulated percent-

age—for example, 75 percent—of the established minimum wage, and to pay workers between the ages of 18 to 21 a similar percentage during the first 6 months of their employment. Many of our part-time employees are students and such a youth differential will give them a preferential opportunity for employment, while they pursue their educational goals.

Mr. Chairman, we believe these changes would make S. 1871 a bill which would equitably balance the various interests and factors involved in this highly complex issue. We appreciate this opportunity to present the views of our association to the subcommittee.

We will be happy to answer any questions the subcommittee may have and to provide any further information you may desire.

Thank you.

Mr. LONDON. I am Sheldon I. London. I appear today on behalf of various retail trade associations representing a cross section of "Main Street, America" independent retail businesses.

Retailers perceive the minimum wage as one of the most critical of all Federal Government policymaking issues. This is so because the impact of any minimum wage increase will affect retailers more than any other employer group in the United States. Not surprisingly, therefore, they will send the bulk of your mail on this controversial issue.

The congressional responsibility for establishing the minimum wage wage rate is a great one, and I welcome this opportunity to express the views of these retail associations on S. 1871. I will address the issue of the rate increase and indexing of the minimum wage in section 2(a) of the bill, and I will also comment on what is not in this bill—a youth opportunity wage provision—and why we believe it should be included.

We support an increase in the minimum wage. In March, Secretary Marshall appeared before the House Labor Committee and revealed the administration's approval of a $2.50 rate effective July 1, 1977.

As you know, the last phased-in rate increase to $2.30 became effective on January 1 for many of our member firms. Thus, for these firms—less than $1 million in annual sales—the Secretary's recommendation would have meant a 13.6-percent increase in the minimum wage within a 6-month period. Although this is a greater increase than that of the inflation rate, it is an increase which retailing could have lived with.

The administration, in the course of 4 months, has regrettably changed its position, and the rate now recommended in S. 1871 is $2.65. If enacted, it would mean a 20.4-percent increase in the minimum wage in 1 year for these small retailers.

This proposed rate increase to $2.65 is simply too high. There is little economic justification for the reversal of the administration's previously espoused rate and the new higher level, unless one considers the blessing of the AFL–CIO an appropriate justification. We reject the $2.65 rate, and we think you should, too.

The members of our associations, while they come from 50 States and experience different regional wage cost levels, would agree that the Congress should pass legislation that would establish an increase in the minimum wage effective January 1, 1978.

I would like to suggest some figures that I believe they could possibly live with:

A January 1, 1978, rate of $2.55 an hour; a $2.80 rate on January 1, 1979; and an increase to $3 on January 1, 1980.

We believe that this kind of increase would be fair and reasonable, one that the Congress could live with and, more importantly, one that the economy could absorb without excessive inflation.

The reform of minimum wage rate-setting procedure through the adoption of an arithmetic formula is a mistake. You have been accused this morning of advocation, and rather than throw this at you once again, I would say you are not going to depoliticize the minimum wage by the adoption of this formula to set the rates in 1979 and thereafter. Indeed, this morning, in the Wall Street Journal, it says:

> The proposal to index minimum wage raises special problems. Proponents contend that that approach would depoliticize the minimums. But don't bet on it. In an election year, it would always be possible for Congress to play around with indexing formula. How long will it be before——

The CHAIRMAN. That is not suggesting this is an election year, is it?

Mr. LONDON. No.

On July 14, when the administration compromise was announced, Philip Burton, before the Labor Committee, suggested that he would be interested in fringe benefits now. I think he was sounding the note that I am addressing today. There is no way that they are going to depoliticize minimum wage through adoption of this formula because it will not be in perpetuity. I believe Congress is fooling itself if it believes that through indexing it has gotten away from the difficult task of legislating wage rates.

The CHAIRMAN. We call it dehumanize minimum wage, and we will let you call it depoliticize.

Mr. LONDON. All right.

Let me address another issue that came up earlier in discussions with Jack Carlson of the chamber of commerce, and that is the mistaken notion that somehow minimum wage must be equated with the poverty level income.

It would be a giant step forward if the debate on the minimum wage could take place without the argument that the minimum wage level must provide the low-wage worker with a poverty level income.

Only last week, Labor Secretary Ray Marshall stated to you: "At current levels a full-time worker earning the minimum wage makes less than $5,000 a year. It is clearly impossible to adequately support a family on an income that low."

Along the same lines, House Report 95–521 to accompany H.R. 3744 raises the poverty level income concept. The majority report laments the fact that the current minimum wage is less than half of what an urban family of four would require on an "austerity budget." That report concludes, "It is sad commentary that after 39 years the goals of the Fair Labor Standards Act still elude us."

There can be no mistaking that a minimum wage level worker, if his earnings are annualized, is right around the poverty line. However, it is far from clear that raising the minimum wage will do anything to relieve his poverty. If such a simple solution were available, why not raise the minimium to $10 an hour?

Obviously such a measure would never work, as production would grind to a halt until a wild inflation again brought labor values into line.

On this point, the New York Times offered effective rebuttal in an editorial which appeared on March 21, 1977: "A higher minimum wage is no answer to poverty, and the indexing gimmick cannot work any better to improve the lot of the needier citizen."

A thoughful view of this fallacious poverty level income argument is contained in a letter to the editor of the Washington Post, July 29, 1977. Professor Carolyn S. Bell of Wellesley College writes:

> Poverty concerns income, not wages; and poverty varies according to the number of people living on a given income. It follows that no single hourly wage can be either above or below the poverty level * * * it all depends on whom that wage-earner is supporting. To equate an hourly wage that applies to all workers, who may be single or living in a family with other workers with a minimum income for four-person families, is just plain wrong. The battle to raise the minimum wage should not be fought on the grounds of poverty.

You will hear the entire gamut of economic analysis concerning the impact of minimum wage on inflation. The people I represent may not be sophisticated economists, but they certainly understand and appreciate the realities of meeting a payroll. I trust their visceral reactions. They tell me that while they have few workers at the minimum wage level, when Congress acts to set a wage policy it affects the entire payroll structure.

Simply stated, if there is an increase of 70 cents in the minimum wage over a 2-year period, the person who was earning at a rate far above the minimum wage level—let us say $4 an hour—will want to go to $4.70. You have heard this phenomenon described as the "ripple effect."

For some unknown reasons, Government economists give short shrift to the "ripple effect," but our members know it well.

This phenomenon is experienced not only by retailers. It is seen in every contract bargaining negotiation and can even be seen among professional athletic teams which may sign a rookie at an extraordinary salary and create a "wage push" among their veteran players.

To this point I have commented on what is in the bill and made some recommendations. Now I turn to what is not in the bill. We believe there is a glaring oversight here because there is no provision for a meaningful youth opportunity wage. It is not enough reason to avoid that issue because the AFL–CIO declares it to be forbidden ground.

Frankly, we in retailing—the most customer-service industry in America—want to give the young people of this country employment opportunities.

What is the advantage of a $3.15 minimum wage to the urban kid who has no job?

If our Nation's youth is to learn early about the work ethic, the opportunity will come only if there are jobs available. The most productive kind of vocational training is obtained on the job, and with sufficient incentive employers would provide it. On the one hand, the Congress has given employers an exciting innovation with the job tax credit provision of the Tax Reduction and Simplification Act of 1977; on the other hand, you know propose to raise the threshold wage rate for entry into the labor force which can only discourage new opportunities. It does not make sense.

Representative John B. Anderson of Illinois, in remarks on the

House floor on April 28, summarized the issue and the challenge to Congress:

> However, equivocal the evidence may be with respect to the broad issue of minimum wage legislation, there is a growing body of opinion that at least one portion of our population is clearly not aided by Congress well-intentioned efforts to place a floor under the wage of American working men and women. I am speaking about our young people. While the overall U.S. unemployment rate—7.3 percent—is disconcertingly high, the unemployment rate for young Americans aged 16 to 19 is downright shocking: 18.8 percent. Even more alarming are the components of the youth unemployment tragedy: Unemployment for 16- to 17-year olds is over 21 percent; for teenage high school dropouts, 19.9 percent; for nonwhite teenagers, 40.1 percent; and for nonwhite high school dropouts, 61.4 percent. The 95th Congress is duty bound to explore new ideas and new programs; in short, to pay more attention to the problems of our young people.

If I can make only one point to you today, I would want you to know that the people I represent have not earned their reputation and their place in the community by exploiting young people on their payroll. It is time that we learned that the young people without training and job experience are not worth the minimum wage that is being suggested in your legislation.

Let us have a meaningful youth opportunity wage. At the very least, give it a chance. Create it, evaluate its impact, and, if we are wrong, eliminate it. Youth unemployment in this country is sadly increasing, and unless you have an effective response from the private sector the situation will not improve.

A jeweler in Prosser, Wash., a member of the Retail Jewelers of America, sent me a copy of a letter she sent to Senators Magnuson and Jackson. It poignantly speaks to the problem:

> We are a small store, but I'm sure the larger firms must feel it also. We hire high school girls to work here and train them. We are selective because of the nature of our business but none of them would be worth starting them out at $3 an hour. We start them in when they are starting their Junior year in high school under the State rules and regulations. They learn to budget their time, do their work, and active in high school activities, and, if they aren't to start with, soon get on the honor roll in high school. We've been exceedingly proud of all our young ladies for they have gone on to college, all on the honor roll and some even in the honors programs offered by the colleges. If we were required to pay $3 an hour to these young people we could not afford to open up these jobs to them nor have the pleasure of seeing them grow into confident young women. When they go on to school, most of them work to support themselves in college for they have learned a skill well, and can handle the college work as well as working. We wholeheartedly concur with Professor Finis Welch when he cited the disemployment of teenagers as the bill's main weakness. We are doing our young people in America a grave injustice when by making the minimum wage so high that business cannot afford to hire them when they want to learn to work.

This concludes my statement, and I would welcome questions from the committee.

Mr. WHITE. As I previously identified myself, I am Donald F. White, vice president of the American Retail Federation.

I, too, appreciate the opportunity to appear before you today. I will make an effort to only summarize for the vast cross section of our membership which I said in our statement is a multifaceted industry.

They represent a significant cross section of the 30 national retail associations and retail associations in all 50 States and the District of Columbia, who make up the American Retail Federation. The membership of the associations consist of retailers of all types and sizes, from small locally owned stores to major national chains. Retailing is made

up of approximately 1.5 million stores, employing nearly 14 million people, and account for over one-fourth of the Gross National Product.

As the committee knows, increases in the minimum wage impact heaviest in the retail sector. According to Department of Labor figures, of the 4,530,000 workers who would be affected by an increase in the minimum to $2.65, 1,200,000 are employed in retailing. The industry represented here by me and my colleagues is heavily labor-intensive. Also, retailing is an industry where productivity defies measurement, unlike other segments of industry, such as manufacturing, construction, finance, insurance and real estate and the like.

So the rhetorical question, as always, is asked: can a given industry or groups of industries afford a minimum wage increase?

The question is always answered affirmatively by Congress. But the question really is much broader than that: can the U.S. economy as a whole afford the increase—both in terms of inflation and in terms of increasing unemployment? In asking this question, incidentally, we are not unmindful of the social and political implications in minimum wages.

Until it could withstand the political pressure no longer, the administration obviously had concluded that the economy could not take an increase anywhere near the figures it ultimately agreed to: $2.65, January 1, 1978; 52 percent, $2.89, a year later, and 53 percent, $3.15, in January 1980.

I have spent a great deal of my time in this initial round of minimum wage increases in trying to do something else than state, as the committee just heard over the years, and quite properly so, the argument that retailers cannot afford it. That there will be disemployment effects, store closings in some instances. I recognize that those arguments have not been entirely successful to say the least over the years.

As a noneconomist, I looked at the work and comments of economists, especially economists on the minimum wage in general and indexing in particular, and I have found there is a great number of respected economists expressing a view of outright rejection of minimum wage increases as a viable economic tool, to those who have changed their positions from one of support to one of doubt. Arthur Okun, senior fellow at Brookings Institution, and Chairman of the Council of Economic Advisors under President Johnson, for example, was quoted in a news story on the administration's compromise as follows:

> . . . Arthur N. Okun, President Johnson's Chief Economic Advisor, said the higher minimum wage would add at least an extra five-tenths of 1 percent to inflation. "That's more inflation than if we cut taxes 40 billion," he said.
>
> And contrary to what "every knee-jerk liberal thinks," Okun added, the minimum wage increase won't help poor people or reduce poverty "one iota." (Chicago Sun-Times, July 13, 1977.)

Professor Finis Welch of the Rand Corp., in testimony before the House Labor Standards Subcommittee on minimum wage last March, advanced empirical arguments against minimum wage increases because of their disemployment effects, and also presented arguments against the indexing increases.

I would like to insert his testimony and his enclosures for the record and have them distributed to the members of the subcommittee.

The CHAIRMAN. You wanted this to be in the hearing record?

Mr. WHITE. If that is agreeable with the chairman.

The CHAIRMAN. It is in part in the House record, I believe.

Mr. WHITE. I have no problem.

The CHAIRMAN. It is a matter of bulk and expense. It will be available. Part of this is not in the House record so I am not sure which is covered.

Mr. WHITE. I have not checked, but it should be in the House hearing record because it was submitted to the House. That is agreeable with me, sir.

The CHAIRMAN. Very good.

Mr. WHITE. Fine.

Also if the same arrangement is agreeable for the insertion of the Brookings article by Prof. Edward Gramlich. It is somewhat shorter. I might suggest that you insert Dr. Gramlich's article. I did not discover Professor Gramlich, but I think I started something when I read an article in the Washington Star about his article in the Brookings publication last year, and I suggested to members of the House committee that he might present interesting testimony. I was interested in the interest that his article and testimony raised about minimum wage.

I have noted with great interest that since that time that Professor Gramlich has been alternatively married and divorced by organized labor and used selectively by management representatives. All I can say is that he has whetted the appetites of a lot of people on both sides of the minimum wage question.

I think it desirable that his article be placed into the record with your permission.

The CHAIRMAN. Very good.

We will make note of it.

Mr. WHITE. To save the committee some time, I will quote the part of his testimony which is most interesting to me, and that is when he says:

> As long as minimum wages are kept low relative to other wages, they are not terribly harmful and in fact even have slightly beneficial effects both on low-wage workers and on the overall distribution of income. They are far from the best way of redistributing income, however, and there are definite limits to how high the minimum can be raised * * *

Other areas, that is, the diverse effects of minimum wage increases on (a) teenagers, (b) female adults, and (c) male adults, which are studied by Professor Gramlich are compelling, and warrant your attention. I am submitting his study for the record also with your permission.

By far, the most serious impact of S. 1871, and its companion House bill is the introduction of automatic increases in the minimum wage through an indexing formula, that is, a percentage of the average hourly earnings in manufacturing. Retailing objects to any form of indexing the minimum wage for the following reasons.

The rationale for indexing the Federal minimum wage is that of maintaining some preestablished relationship between the minimum wage and some other economic measure on the theory that the minimum wage should reflect a fixed amount of purchasing power or reflect wage movements in the economy as a whole.

Proponents of indexing are trying to avoid the legislative hassles and alleged lags when Congress legislates new levels periodically, in order to maintain some "desired" relationship or parity level. They see

the risk in the legislative approach as being that of no action or less favorable action than desired.

Were the index used that of price movements, for example, the Consumer Price Index, the assumption would be that the established wage was appropriate for some time to come and that indexing was required to prevent the erosion of purchasing power. Were the index used that of an average hourly earnings level or the poverty level, the assumption would be that an appropriate relationship between that level and the minimum wage level had been established and that maintenance of that relationship was a desired objective. Proponents of this approach would find indexing a form of insurance against changes, undesirable to them, in the relationship.

Unfortunately, increases in the minimum wage would cause serious problems, rather than provide the "balance" intended by its proponents. An increase or decrease will take place under specified circumstances regardless of the economic or social consequences.

For example, a labor cost increase when the Federal Government is trying to stimulate employment—particularly teenage or minority—may only result in unemployment, just the opposite of the desired effect. Efforts to stabilize prices may fail if wage cost pressures are automatically increased as the result of the inexorable application of a given index.

Unfortunately, once an index relationship is established it is difficult to undo, as often much harm must be borne before signals can be changed. The recent indexation of social security and Federal retirement benefits is a fresh example.

Indexing removes the human element in making a judgment on the timing and amount of minimum wage increases—including the decision as to whether there should be any increase at all. Changes in the minimum wage should be the result of public-policy decisionmaking, after careful consideration of all factors involved. It is irresponsible to suffer the use of an index, without having to weigh the fallout of such increases.

If we index the minimum wage, we are, in effect, admitting that our legislative processes cannot be relied on to arrive at judgments on an issue which is as much social and political as it is economic.

Irrespective of the formula, any index tied to either prices or wages, in the light of our economic experience of the last 20 years, is per se inflationary. In speaking of the use of a manufacturing average wage, Prof. Finis Welch of the Rand Corp., and a respected labor economist, said, in recent testimony before the Labor Standards Subcommittee:

> * * * the average manufacturing wage is, itself, affected by the minimum wage. The feedback link is simply that an increased minimum will raise the manufacturing average which, if the minimum is indexed on the average, will raise the minimum and so on * * *

There will be a net inflationary effect, also any time increases are achieved by workers in manufacturing on any basis—union negotiations, built in COL escalators—not based on productivity. Whenever a wage level above actual productivity is maintained, production costs become too high, high, thus pushing up selling prices—"but," in the words of Gardner Ackley, former Chairman of the Council of Economic Advisers, "the dog never catches his tail."

Since the introduction of H.R. 10210 in the 94th Congress, at least three and perhaps four indices have been considered for use as a means of automatically increasing the minimum. H.R. 10210 contained the "CPI-plus-1%" formula, taken verbatim from the Civil Service Retirement Act.

When the bill's sponsor discovered the formula vulnerable to valid criticism—the 1 percent provision in the Civil Service Retirement Act was soon after repealed by Congress—the "hourly earnings index" was next tried, but appeared only in a draft bill, which was never introduced. When H.R. 3744 was introduced, the bill's sponsor used the "average hourly earnings for production workers on manufacturing payrolls," defined at first as gross earnings, and later "informally" amended to mean the nonovertime average. Such vacillation indicates a lack of confidence in the concept.

Retailing strongly believes that the bill should provide for the establishment of a Presidential Blue Ribbon Study Commission, to be made up of labor, management, Government representatives, academicians and sociologists, whose charter would not only include the study and recommendations on indexing the minimum wage, but all aspects of minimum wage as a socioeconomic tool.

From its beginnings, the effects of minimum wage have been profound. It was welcome as a great social advance. It made inroads into the evils of the sweatshop. It did provide a measure of dignity and security to the unorganized at the lowest income level who were not in a strong individual bargaining position.

It is suspected that now there are equally profound social and economic ill effects stemming from minimum wage adjustments in the 1970's. There are warnings that those ill effects will multiply as the rate continues upward.

Nonetheless, a clear delineation of the effects of the minimum wage rate both for good and bad is not available to Congress. The complexity of the problem is wide ranging. Its relationship to other problems facing the economy, the welfare system, to name an obvious example, are not well understood. It seems opportune, therefore, for Congress to make available the resources needed to sort out the complexities implied in the minimum wage. To accomplish that, it is proposed that Congress establish an independent study commission with a fixed term and with authority similar to that given the National Commission on State Workmen's Compensation Laws in section 27 of the Occupational Safety and Health Act of 1970.

The Commission would launch a thorough study using modern data and modern data analysis techniques to discover how the minimum wage interrelates with other social and economic questions posed by a society vastly different from that of 1938 or even the 1950's. The Commission would be required to make recommendations to Congress on the appropriateness of the minimum wage ratesetting process. It would recommend on the advantages and pitfalls of indexing the minimum wage. If appropriate, it would recommend alternative solutions to the problems the minimum wage is supposed to solve.

This completes my general remarks. I will be pleased to respond to any questions you may have.

I thank you for your time.

The CHAIRMAN. Gentlemen, thank you very much.

I have one question that I would like to start with. In retailing, the changes in minimum wage have come in two ways, both in hourly rate and coverage. There have been two classes in what we call newly covered and those covered earlier.

You all speak for those who were earlier covered. Do any of you speak for newly covered?

Mr. LONDON. Mr. Chairman, I did indicate concern for newly-covered retailers. We estimate at least 4 million employees experienced the last increment to $2.30 on January 1, 1977.

The CHAIRMAN. And the others went to $2.80 a year earlier?

Mr. LONDON. That is correct.

The CHAIRMAN. All are covered now at $2.30?

Mr. LONDON. There is parity now.

The CHAIRMAN. The larger establishments, January 1, 1976, and the smaller ones, January 1, 1977. What was the experience following the application of the present minimum wage of $2.30 in your area of life, in retail establishments, in terms of employment number one? Do you have those?

Mr. PROFFITT. I cannot give exact figures, but what happens is, well, your wife does most of the shopping probably—that is the case in our industry—about 85 percent of department store patrons are women. We have gone to what we call an area wrap or cashier system. This is the first step that minimum wage has brought. People like Penney's and Sear's have done this.

One of our big competitors like K-Mart has gone completely to self-service. I represent small, independent stores who are still trying to give service.

The CHAIRMAN. Are you considered newly covered?

Mr. PROFFITT. We have been covered. I want to emphasize that you are not going to put us out of business, I'm not yelling that at all.

The CHAIRMAN. I just wondered what happened. Did that put pressure on you to reduce your employment?

Mr. PROFFITT. We did two things: we cut the store hours, and we did not open as early. We used to be open 6 nights a week, and now we are closed on Tuesday and Wednesday. A lot of people, even though they get a raise, do not make any more because of reduced hours.

Second, we reduce the number of employees by going self-service. If it gets too high too fast, especially through indexing, we may end up self-service, God forbid. That will hurt us a great deal, because our thing is service. But you may force us to if you get too high too fast. I think the wisdom of Congress is all right. I trust you if you do not go too far, too fast with this thing and give us a chance to absorb it. What scares us is indexing. We think we are going to lose the last thing we have in the free enterprise system. We cannot stand more increases that you are setting up for us. You are taking away any incentive we have to give merit increases and to raise our people.

We will have to lay people off if it is too fast. If you do not move to quickly, I think we can live with it.

The CHAIRMAN. I wanted to see what the experience was the last time.

Mr. PROFFITT. We have reduced our work force.

The CHAIRMAN. How many did you have before $2.30 and how many do you have now?

Mr. PROFFITT. Senator, I cannot answer. I can furnish that information to you.

The CHAIRMAN. It would be helpful.

Mr. PROFFITT. Would you like for me to do so?

The CHAIRMAN. Yes.

Does anybody else want to comment on numbers pre-$2.30 and numbers post-$2.30, although all of you are in representative situations, and Mr. Proffitt, of course, is speaking from the point of operation.

Mr. PROFFITT. One other point I would like to make.

Out of our work force total, we only have 34 people under the minimum today. We do not need the bill to give them higher wages. We have a policy of paying $2.50, and we used to hire kids at the minimum, and we do not need this bill to increase their salaries. I think that is the important point.

A lot of people—I can only speak for the industry I know—are not all down on minimum wage. We have over 80 people making over $3. We are doing everything we can. The best thing that can happen to the retailing business is to keep people working and making money, because they will spend more with us. We are not opposed to people making more money. We want to see unemployment licked. We are as interested in that as you are, maybe more so.

Mr. WHITE. In January 1976, I made an attempt to survey our membership on the ripple effect, because we had been told in the past that there had been no proof one way or the other that there was indeed a ripple effect. I hesitate to introduce it into the record because I am the first to say it is probably not statistically valid.

However, we did ask the questions, and I will be pleased to discuss it.

We asked the question of our members in various store volume groups what they would do at that time—at that time the proposal was $2.65 on January 1, 1976, and then $3 on January 1, 1977, and it was no great surprise that starting in the $250,000 to $500,000 group, prospectively, the estimates were starting with layoffs of two in the lowest volume group. In the $100 million plus volume group, 200 employees of that group they estimated would be laid off.

The second question that has been asked—who represents the smallest stores? Our State associations represent very small stores. And the one request we have had in the context of minimum wage legislation beyond, obviously, the complaint that they cannot take it, is a request which I would be happy to place before you in their behalf, and that is, that the enterprise test be raised, because whatever was $250,000, the 1968 dollars is nowhere near the $250,000 in 1977. It was estimated that $250,000 in 1968 dollars is up around $400,000 today.

That is an indication of their concern.

Mr. WOOD. I would like an opportunity to submit some information later on on this. Our trade association had many of its members involved with it. But our particular company was not, because our sales were never under the retail exemption there. I do know that many of our other members did have some kind of effect. I just do not have enough information to respond to that right now.

The CHAIRMAN. I believe that is all. Thank you very much.

Mr. WOOD. Thank you.

[The prepared statements of the panel and other information referred to follows:]

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EXECUTIVE OFFICE

August 12, 1977

Senator Harrison A. Williams, Jr.
United States Senate
Committee on Human Resources
Room 4230
Washington, D. C. 20510

Dear Senator Williams:

May I thank you again for allowing me to testify on behalf of the National Retail Merchants Association on the minimum wage bill S1871.

As per your request, I am pleased to supply the following information relative to the effect that the past increases in minimum wage have had upon the number of people that we employ.

If we had offered the same level of service in 1976 that we did offer in 1972, we would have required 305 selling employees rather than the 224 selling employees in 1976 that we actually employed. This means, of course, 81 unemployed persons in the local area as well as reduced service to our customers.

These figures were arrived at by projecting our 1972 sales per selling employee to 1976 levels, allowing for a 6% annual inflation, and comparing this figure to our actual 1976 sales per selling employee. You might also be interested to know that in 1972, selling employees made up 61.3% of our total work force, compared to 52.7% in 1976 - again, reflecting fewer jobs due to offering reduced service.

Senator Williams, I hope that you and your Committee will please consider not adding the index feature to this bill. I feel I understand small business and I don't believe that you realize how much this will reduce the number of people that small businesses will be able to employ. We both know we need to put people on payrolls in this country today.

Sincerely yours,

Proffitt's, Inc.

Harwell W. Proffitt
President

HWP/va

National Retail Merchants Association

NRMA

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202/223-8250

STATEMENT OF THE

NATIONAL RETAIL MERCHANTS ASSOCIATION

ON S. 1871,

"FAIR LABOR STANDARDS AMENDMENTS OF 1977"

BEFORE THE SUBCOMMITTEE ON LABOR

THE SENATE COMMITTEE ON HUMAN RESOURCES

August 2, 1977

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nrma

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My name is Harwell Proffitt. I am Executive Vice President and General Merchandising Manager of Proffitt's Department Store, which is located in Alcoa, Tennessee. Proffitt's operates four small specialty stores in the area. I have worked in the retail industry for many years and I believe I am keenly and sometimes painfully aware of the many problems facing all sizes of retail enterprises. I am testifying today on behalf of the National Retail Merchants Association. I am a member of the Independent Stores Board of NRMA and am a past chairman of that Board.

NRMA is a voluntary trade association whose members operates approximately 35,000 general merchandise retail outlets throughout the United States. While NRMA's membership includes all of the nationally known chain and department stores, the bulk of our membership strength rests among small, independently owned retail establishments, the majority of which have annual sales under one million dollars. Among our members are numerous modest, family-operated stores some of which are located in very rural areas.

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Our industry believes that a 15 percent increase in the minimum wage effective at one time on January 1, 1978, and successive annual increases which are expected to raise the minimum wage a total of 37 percent in less than 2 1/2 years, is not in the best interest of the country and is unjustified. This is particularly true since it would follow on the heels of successive step increases since April 1974 which have raised the minimum wage a total of 43 per cent. In addition, we are particularly dismayed that the minimum wage bill before this Subcommittee incorporates a system of indexing, which provides for yearly hikes in the minimum wage without any prior consideration by the people's representatives as to whether each particular increase is justified and desirable.

Because the NRMA believes that adoption of a system of indexing might well have a harmful impact on the economy in general, and on retailing, in particular, my comments today will deal primarily with that subject.

To my knowledge, there has never been a detailed study undertaken to determine the likely economic, social and political impact of indexing the minimum wage. Indexing has simply been offered as a supposedly painless alternative to the recurring headache of deciding whether an increase in the minimum wage is warranted. The NRMA submit that such

a rationale is insufficient to justify an approach which has had disastrous effects elsewhere. It is the view of the retail industry that without a careful impact study of indexing it is not possible for the Senate to make an informed judgment as to the desirability of such a system. We believe that such a study is an absolute necessity and that it should be geared to answer some very fundamental questions. I would like to pose just a few of these questions at this time:

First, there has been no study as to the likely inflationary effect of an annual substantial increase in the minimum wage. There is no doubt that every increase in the minimum wage is to some extent inflationary. Indeed, it has been pointed out by Finis Welch, Professor of Economics at UCLA, that if the minimum wage is indexed to a percentage of average manufacturing earnings, then the simple act of raising the minimum wage, which must perforce raise average manufacturing earnings, will create a self perpetuating inflationary spiral. More important is the need to know just what the inflationary effect of inexorable hikes in the minimum wage is likely to be in times of already heavy inflation. The spectre of runaway inflation in countries like Brazil and Italy, where inflationary fires are fanned by mandatory indexed wage increases, is not pleasant to contemplate. Unless and until an unbiased, thoughtful and thorough study

of the matter demonstrates that indexing will not exacerbate such inflation, indexing should not be adopted here.

A second important question which seems to me to warrant an answer prior to adoption of indexing is what effect indexed annual increases are likely to have on entry-level job opportunities. The recent looting which occurred in New York during the black-out has been blamed by many on the high rate of unemployment, particularly among young people and minority groups -- where unemployment runs as high as 40 percent. Increasingly, those who seek to find entry-level jobs for teenagers have come to oppose any rise in the minimum wage at this time because of the rise in unemployment among the young which seems inevitably to follow all minimum wage hikes.

In my own experience at Proffitt's, each rise in the minimum wage has meant lay-offs, with entry-level jobs usually the hardest hit. In addition, at Proffitt's, as at so many other retail establishments, hikes in the minimum wage have meant curtailed hiring of entry-level personnel, and thus fewer job opportunities.

At a time when excessive unemployment concentrated among the young and minority groups is a critical national concern, the potential impact of indexing on this problem should be studied prior to enactment of an indexed minimum wage.

A third question needing to be answered prior to adoption of indexing is why use an index based upon average manufacturing earnings and have this index apply to all sectors of the economy. The fact that it may be a somewhat more stable index than the C.P.I. is hardly a sufficient justification. Manufacturing workers account for only 24 percent of all employees in the U.S. They are not necessarily typical of employees in any other industries. The economics and employment conditions of the retail industry, for example, bear little relationship to manufacturing, yet under indexing retailing would be forced to live with an index set at a fixed percentage of the manufacturing wage.

The 53 percent figure proposed is an interesting one. Apparently its only justification is that it represents a compromise between the President's initial proposal of an index pegged at 50 percent, and organized labor's much higher proposal. The 53 percent figure seems to have no economic or social justification. Its only justification seems to be one of political expediency.

Historically, the minimum wage has hovered at just below 45 percent of the average manufacturing wage although it did hit a low of 28 percent in 1950. In the past, Congress has reconsidered the minimum frequently, and whenever a balancing of economic, social and political considerations has indicated that a hike has been warranted,

one has been forthcoming. Congress has invariably taken into consideration such elements as the current and projected rates of unemployment and inflation, the level of economic activity in the country and the like before reaching a decision as to what the minimum wage should be. The balances struck by Congress, based upon these diverse relevant factors, have led to the adoption of minimum wage increases which have put the minimum wage levels at various different percentages of average manufacturing earnings. That Congress has -- up until now -- shown little concern for the levels of average manufacturing earnings in considering minimum wage increases, is, I think, a reflection of the limited relevance of such a statistic.

If it enacts the present indexing proposal, Congress will have done nothing less than abdicate its legislative responsibility to a computer. Instead of perodic reasoned decision-making based upon a balancing of all relevant considerations, we will have made our decision that changing economic and social conditions shall henceforth mean nothing. Moreover, as has been pointed out by Professor Edward M. Gramlich, of the University of Michigan, Congress will have given up the benefit of periodically reconsidering the minimum wage as a policy, armed with whatever new evidence of views on economic, social and political concerns have accumulated since the last minimum wage debate. Come good times or bad, inflation or not, high unemployment or not, the minimum wage shall

be 53 percent of average manufacturing earnings.

Some people have supported indexing on the basis that traditional minimum wage decisions are subject to political pressures and that indexing will relieve the Senate and the House of this pressure. With all due respect to those who offer this justification, political pressure is what democracy is all about. Legislators ought to be responsive or at least answerable to their constituents. If it is justifiable to relieve this pressure on the issue of the minimum wage, why not also do so on other difficult issues? Why not have automatic adoption of the President's budget proposals and of other annual measures which normally subject Congress to intensive constituent contact? In any case, we can be sure if indexing is adopted there will be continued political pressure to raise the percentage of average manufacturing earnings from 53 percent to some higher figure, to include overtime earnings and fringe benefits in the measure of average manufacturing earnings, etc.

Hikes in the minimum wage have an enormous impact on all Americans. The American people are, therefore, it seems to me, entitled to have their legislators give proposed increases in the minimum wage the careful attention they warrant. Such a responsibility cannot be fulfilled by substituting for legislative judgment based on all relevant factors, a computer which meassures only a single, exceedingly narrow economic factor, and which fails to take into account obviously relevant considerations such as the rate of inflation and the level of unemployment.

In the few minutes I have remaining I would like to make brief reference to a few problems which have arisen in the retail industry in the past as a result of minimum wage increases and

which I foresee arising in the future in more serious form if indexing is adopted.

Retailers operate in a highly competitive marketplace. As you probably know, because of this keen competition, the profit margins of the general merchandise retail industry are among the lowest in the business world. In addition, retailing is a highly labor intensive industry; payroll expenses represent, by far, the largest single item of net operating expense, constituting more than 50 percent of net operating expense as an overall average for the industry.

In the past, each substantial increase in the minimum wage has had a significant negative impact on profit margins, which retailers, because of already thin profit margins, could not sustain without instituting certain operational changes. In addition to the direct costs imposed, increases in the minimum wage have inevitably produced what is known as a "ripple effect." Whenever the minimum is increased, there is a corresponding upward movement of the wages of the rest of the work force, as store management must shift the entire wage scale to maintain wage differentials between newly-hired workers and the more experienced, more productive workers. Because of the vigorous competition which exists in the industry, retailers have historically been precluded from recouping the full costs of boosts in the minimum wage by passing them on to the consumer in the form of higher prices. Hence, retailers have been forced to cope with increases in the minimum wage by instituting measures designed to reduce operating costs.

Since payroll is by far the largest operating expense and the only item that can be trimmed to any significant degree, in the

past retailers have met the increased costs of a rising minimum wage by changes in the sizes and composition of the workforce. With each boost in the minimum wage, more and more retailers have been obliged to curtail hiring, reduce existing overall employment levels and accelerate the continuing shift in the composition of the industry workforce toward part-timers. Many smaller stores have been forced to reduce business hours, thus cutting working hours for their staffs -- so that many employees reap no financial benefit at all from increased rates of pay. Stores have also been forced to lay off staff members, to introduce self-service systems and, in some family-run operations, to dispense totally with non-family member employees.

These unfortunate trends in our industry can only be accelerated by a system of indexing which promises annual substantial boosts in the minimum wage. A large number of retailers are already having trouble keeping their heads above water. Faced with the prospect of coping with substantial increases in operating expenses, many may simply throw in the towel.

It is true, of course, that knowing that there will be annual increases in the minimum wage will permit retailers to plan ahead and to attempt to devise ways to cope with these increases. But I confess that I am at a loss as to how to cope without accelerating the unfortunate trends already in evidence in the industry. Thus, I think the future will bring continued reductions in full-time job opportunities, introduction of more and more self-service departments, and even whole self-service stores, less hiring, in short, a continuing decline of employment in an industry which has traditionally offered entry-level opportunities to the unskilled.

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In sum, then, the NRMA, on behalf of the retail industry which employs in excess of 13 million Americans, urges that the proposed increases are excessive and further that the question of indexing is an appropriate subject for study either by legislative committees or by a Presidential Study Commission, consisting of government representatives, economists, sociologists and management and labor representatives.

Such a study should determine whether indexing is an effective vehicle for providing increased income for our lowest paid and unemployed workers as well as give careful consideration to the impact of indexing on inflation and unemployment. A study of indexing is long overdue and a necessity before a national experiment with an indexed minimum wage is undertaken.

I want to thank you for the opportunity to appear before you today to express the views of our Association. We hope that you will give these views serious consideration in your Subcommittee deliberations.

STATEMENT OF RICHARD D. WOOD, JR.

ON BEHALF OF THE

NATIONAL ASSOCIATION OF CONVENIENCE STORES

BEFORE THE

SUBCOMMITTEE ON LABOR

OF THE

SENATE COMMITTEE ON HUMAN RESOURCES

ON

S. 1871, A BILL TO RAISE THE MINIMUM WAGE

AUGUST 2, 1977

Mr. Chairman and members of the committee, I am Richard D. Wood, Jr., President of Wawa, Inc., a company which operates a chain of 183 convenience stores under the name "Wawa Food Markets" in Pennsylvania, New Jersey, New York, Connecticut, Delaware, and Maryland. I appreciate this opportunity to appear here today to present the views of the National Association of Convenience Stores on S. 1871. Accompanying me is William D. Patton of State and Federal Associates, our association's Washington advisors on legislative matters.

The National Association of Convenience Stores is comprised of 515 member companies which operate approximately 29,000 stores throughout the country. For those who may not be familiar with the term, convenience stores are small neighborhood stores, usually open 16 to 18 hours a day, handling grocery, dairy, bakery, snack food, and other high demand items. Our largest member operates almost 6,000 stores, under the name "Seven-Eleven," but most of our members are small businesses, and many operate only 1 or 2 stores. With few exceptions our members are locally owned and operated. As I am sure you recognize, our members' stores basically are in direct competition with the

supermarkets, and "convenience" for the consumer in terms of hours and location is the fundamental way we compete. Last year gross sales for the entire convenience store industry totalled approximately $7 billion. NACS represents about 90% of the industry in the United States in terms of gross sales.

INCREASES CONTEMPLATED BY S. 1871

The enactment of S. 1871 would have a devastating impact on the convenience store industry and its employees. Unlike earlier adjustments in the minimum wage -- which have been 10¢ and 20¢ an hour -- S. 1871 proposes to raise the minimum from its present $2.30 an hour to $2.65 an hour, effective January 1, 1978. That would be a whopping 15% increase, contrasted to the 5% increase which took place January 1, 1975 and the 9.5% increase which went into effect January 1, 1976. When you add the additional increases of about 10% on January 1, 1979 and 10% more on January 1, 1980, as proposed in S. 1871, the minimum wage in little more than 2 years would be 37% above the existing level.

To illustrate the impact on convenience stores of minimum wage increases of that magnitude, let me use my own company as an example. We are based in Pennsylvania and already pay our employees--even part-timers-- substantially more than the minimum wage. On the surface, an increase in the minimum wage would not affect our company or its employees. But if the federal minimum wage were to go up to the extent contemplated in S. 1871, our company's average wage rate inevitably would rise due to the upward push exerted on all wages when the minimum is increased. Realistically, we could anticipate a 35% increase in our company's store wages, paralleling the 37% increase in the federal minimum. An increase in labor costs of that magnitude--even after our present store income were adjusted upward to reflect anticipated price increases based on future inflation--would cause many of our stores to sustain a substantial

loss instead of making a profit as they do now. Most other convenience store companies, particularly smaller ones, would be similarly affected. For those companies whose average hourly store wage is close to $2.30 per hour--a not uncommon situation in the South and Southwest--the adverse impact of S. 1871 would be especially severe.

If basic wages were to go up as high and as fast as contemplated in S. 1871, we as retailers would have only three basic alternatives available to us: (1) raise retail prices on goods and services to offset the additional overhead of increased wages; (2) reduce the number of employees and strive for more production; and (3) close marginal stores that do not generate enough volume at the new level of markup to be profitable.

As for the first of these alternatives, I myself do not see how raising retail prices sufficiently high enough to offset a 35% or more increase in wages would be realistic for most convenience stores. Right now, for example, labor and its directly related costs constitutes about 50% of the total operating expenses of many convenience stores, not including the costs of goods. If these stores were to attempt to raise retail prices of offset the increased labor costs S. 1871 would entail, above and beyond increases caused by other inflationary factors, the prices for our products and services would be almost prohibitive for many consumers, and convenience stores would be placed at a serious competitive disadvantage.

The second and third alternatives open to store operators--that is, closing marginal stores, and reducing the number of employees in stores that remain open--are equally unrealistic from the point of view of employees who would lose their jobs. At least 20% of the 29,000 convenience food stores in our country presently are marginally profitable. That would be 5,800 stores which would face closing if the extra burden of a 35% increase in labor and labor

related costs were imposed. At an average of 5 employees per store, 29,000 employees would lose their jobs. And these are for the most part women, youth, and many who would otherwise be unemployable. The ripple effect on support personnel, of course, would further impact this situation.

And let me emphasize that a 20% figure for store closing is probably very conservative. One of our association's members has calculated that a minimum wage of $3.00 would directly affect over 60% of its 3,700 store employees, not counting the escalation effect on the wages of those making about $3.00. Taking just its present break-even point (that is, assuming no profit) it calculates that potentially 900 of its 1200 stores would face closing if S. 1871 were enacted as written. In addition, for that company to maintain the same current margin for its low volume stores, it would have to terminate 319 additional full or part-time people. When it adds the additional 1,400 staff and administrative personnel who would also wind up being laid off if 900 of its stores were closed, it comes up with a total of approximately 4,000 lost jobs as a result of S. 1871. Aside from the crippling impact on the company itself, the impact on its employees would be staggering.

In sum, Mr. Chairman, the minimum wage increases contemplated by S. 1871 could sound the death knell for a large number of convenience food stores. It would force mass layoffs, and could cause some companies to go completely out of business. And the plight of our industry and our employees would in the long run work to the detriment of consumers as well. As I have already mentioned, convenience stores basically are in competition with the supermarket industry for the consumers' food purchases. At the present time, the convenience industry does about 4% of the nation's retail food business. Until now, it has been anticipated that the convenience store segment of the retail food business would do between 8 and 10% of the retail food store business by the early 1980's.

This is because our industry thus far has been able to compete successfully with the larger stores. Our "close to home" service has been able to attract customers that the supermarket operators would like to have back. But the imposition of the minimum wage increase contemplated by S. 1871 would take away the competitive strength that we presently have against the supermarkets, and cause a number of convenience stores to close and companies to fail. For the consumer, the demise of this segment of the retail food industry not only would mean less service and less convenience, but higher prices in the long run as well.

"Indexing" All Minimum Wages to Average Manufacturing Wages

Aside from the problems we have with the size of the minimum wage increases provided in S. 1871, the convenience store industry strongly objects to the concept of indexing the minimum wage for all employees to the hourly earnings of production workers on manufacturing payrolls. We believe such a proposal not only is economically unsound, but is manifestly unfair. If it is adopted, we predict it will wind up harming many of the very workers it ostensibly is intended to protect.

Indexing the minimum wage for employees in retail enterprises, service industries, agriculture, and all other segments of our economy to an automatic percentage of the hourly rate for production workers on manufacturing payrolls will mean, in effect, that a relatively small handful of labor union negotiators and manufacturers representatives will be establishing--directly or indirectly--minimum wage rates for our society's entire work-force. If it adopts this system, Congress will have stepped out of the picture as a practical matter except perhaps to legislate future increases in the indexing percentage. The present system--whereby the Congress weighs the views of various interest groups such as

those assembled here today and then establishes a minimum wage which balances the various economic, political and social forces involved--will be gone. The service industries, retail trade, agriculture, and others, no longer would have a forum in which their voices can be heard before the establishment of minimum wage rates which could put some of them out of business.

In addition to being unfair, indexing all minimum wages to manufacturing wages would be economically unsound. It would be inherently inflationary in two ways. Automatically higher minimums would create constant upward pressure on wages of non-minimum workers and ultimately result in wage increases all along the line. In addition, increased minimums would necessitate retail price increases, which in turn would create pressures for compensating higher wages in manufacturing as well as elsewhere. The upward spiral would never end.

Indexing would mean loss of jobs in labor-intensive retail, service, and agricultural enterprises -- and would thereby harm many of the very people the concept supposedly is intended to protect. The convenience store industry for example, presently employs many part-timers who are often unskilled youths or senior citizens. But if wage increases are forced on the convenience store industry as proposed in S. 1871, many of our members would have no alternative but to lay-off many of these employees and rely on fewer permanent, full-time workers.

Attempting to equate retail enterprises (such as convenience stores) with manufacturing is impractical and economically unsound because of a number of fundamental differences between them. Manufacturing is a more capital-intensive operation. Retailing provides a lower level of return on investment and sales. Its lower capital requirement makes entry for newcomers easy, and correspondingly makes competition intense. In addition, the convenience store work force simply cannot be compared to the production work force in manufacturing, which is highly organized, and is more permanent (i.e. has more seniority), more skilled and

highly trained. All of these differences make it totally impractical to attempt to equate retailing and manufacturing by an automatic wage index.

Proposals

Mr. Chairman, our Association strongly recommends that the Congress retain its present practice of periodically reviewing minimum wage levels and establishing minimum wages on the basis of economic, political and social factors as they exist at that time. We believe indexing as a concept should be abandoned.

We do not object to the proposed increase to $2.50 per hour suggested by the Administration just four months ago, but as indicated earlier in my statement, we feel the $2.65, $2.89, and $3.15 increases contemplated in S. 1871 go too far too fast.

We also support the suggestion that a youth differential provision be written into the minimum wage law to permit employers to hire and pay young workers under 18 years of age a stipulated percentage (for example, 75%) of the established minimum wage, and to pay workers between the ages of 18-21 a similar percentage during the first six months of their employment. Many of our part-time employees are students and such a youth differential will give them a preferential opportunity for employment, while they pursue their educational goals.

Mr. Chairman, we believe these changes would make S. 1871 a bill which would equitably balance the various interests and factors involved in this highly complex issue. We appreciate this opportunity to present the views of our Association to the Subcommittee. We will be happy to answer any questions the Subcommittee may have and to provide any further information you may desire.

TESTIMONY OF

SHELDON I. LONDON

On Behalf of

NATIONAL RETAIL HARDWARE ASSOCIATION

HOME CENTER INSTITUTE

RETAIL FLOORCOVERING INSTITUTE

RETAIL JEWELERS OF AMERICA

PHOTO MARKETING ASSOCIATION INTERNATIONAL

NATIONAL SHOE RETAILERS ASSOCIATION

WESTERN HOME FURNISHINGS ASSOCIATION

Before

THE SUBCOMMITTEE ON LABOR

Of The

COMMITTEE ON HUMAN RESOURCES

UNITED STATES SENATE

HEARINGS ON

S. 1871, FAIR LABOR STANDARDS ACT AMENDMENTS

August 2, 1977

Mr. Chairman and Members of the Subcommittee:

I am Sheldon I. London, partner in the Washington law firm of London and Goldberg, and I appear on behalf of the National Retail Hardware Association, the Home Center Institute, National Shoe Retailers Association, Photo Marketing Association International, Retail Floorcovering Institute, Retail Jewelers of America, and the Western Home Furnishings Association. These trade associations, representing a cross section of "Main Street" America retailers, have a combined membership exceeding 50,000 firms.

Retailers perceive the minimum wage as one of the most critical of all federal government policy making issues. This is so because the impact of any minimum wage increase will affect retailers more than any other employer group in the United States. Not surprisingly, therefore, they will send the bulk of your mail on this controversial issue.

The congressional responsibility for establishing the minimum wage rate is a great one, and I welcome this opportunity to express the views of these retail associations on S. 1871. I will address the issue of the rate increase and indexing of the minimum wage in Section 2(a) of this bill, and I will also comment on what is not in this bill -- a youth opportunity wage provision -- and why we believe it should be included.

The Proposed Increase

We support an increase in the minimum wage. In March, Secretary Marshall appeared before the House Labor Committee and revealed the Administration's approval of a $2.50 rate effective July 1, 1977.

As you know, the last phased-in rate increase to $2.30 became effective on January 1 for many of our member firms. Thus, for these firms (less than $1 million in annual sales) the Secretary's recommendation would have meant a 13.6 percent increase in the minimum wage within a six-month period. Although this is a greater increase than that of the inflation rate it is an increase which retailing could have lived with.

The Administration, in the course of four months, has regrettably changed its position, and the rate now recommended in S. 1871 is $2.65. If enacted, it would mean a 20.4 percent increase in the minimum wage in one year for these small retailers.

This proposed rate increase to $2.65 is simply too high. There is little economic justification for the reversal of the Administration's previously espoused rate and the new higher level, unless one considers the blessing of the AFL-CIO an appropriate justification. We reject the $2.65 rate, and we think you should too.

Indexing the Minimum Wage

The reform of the minimum wage rate-setting procedure through the adoption of an arithmetic formula is a mistake. It is disingenuous for this Congress to suggest that it is time to "depoliticize" the setting of the minimum wage and that this is to be done by an abdication of legislative responsibilities. You are only exchanging the politicizing of the rate-making for the politicizing of the rate-making formula.

It is abundantly clear that the formula in S. 1871 will be the scene of the next minimum wage battle. How long will it be before the 53 percent ratio will go higher, or when will we add fringe

benefits to the equation, as suggested by Representative Philip Burton to the House Labor Subcommittee on July 14, 1977?

Of course, there are reasons why the indexing of the minimum is popular. We can explain organized labor's love affair with indexing, as in one explanation offered in an April 12, 1977, Wall Street Journal editorial:

> "If the minimum wage is allowed to lag behind the growth of the average wage in manufacturing, it becomes a drag on union bargaining. The minimum wage is a protection not for low-paid, unskilled workers but for organized labor. If labor can win the indexing provision, the protection will be that much stronger."

This Congress is fooling itself if it believes that through indexing it has gotten away from the difficult task of legislating a minimum wage. We don't accept the fact that indexing will improve the rate-making procedure. Setting the minimum wage rate in the final analysis is the task of the legislator, and an insufficient case has been made by its proponents for the 95th Congress to change a 40-year practice.

The members of our associations, while they come from 50 states and experienced different regional wage cost levels, would agree that the Congress should pass legislation that would establish an increase in the minimum wage effective January 1, 1978, and provide for fair, non-inflationary increases on January 1, 1979, and January 1, 1980.

Minimum Wage and Poverty

It would be a giant step forward if the debate on the minimum wage could take place without the argument that the minimum wage level must provide the low-wage worker with a proverty-level income.

Only last week, Labor Secretary Ray Marshall stated to you:

> "At current levels a full-time worker earning the minimum wage makes less than $5,000 a year. It is clearly impossible to adequately support a family on an income that low."

Along the same lines House Report 95-521 to accompany H.R. 3744 raises the poverty-level income concept. The Majority Report laments the fact that the current minimum wage is less than half of what an urban family of four would require on an "austerity budget." That Report concludes, "It is sad commentary that after 39 years the goals of the Fair Labor Standards Act still elude us."

There can be no mistaking that a minimum wage level worker, if his earnings are annualized, is right around the poverty line. However, it is far from clear that raising the minimum wage will do anything to relieve his poverty. If such a simple solution were available, why not raise the minimum to $10.00 an hour? Obviously such a measure would never work, as production would grind to a halt until a wild inflation again brought labor values into line.

On this point, the New York Times offered effective rebuttal in an editorial which appeared on March 21, 1977:

> "A higher minimum wage is no answer to poverty, and the indexing gimmick cannot work any better to improve the lot of the needier citizen."

A thoughtful view of this fallacious poverty-level income argument is contained in a letter to the Editor of the Washington Post (July 29, 1977). Professor Carolyn S. Bell of Wellesley College writes:

> "Poverty concerns income, not wages; and poverty varies according to the number of people living on a given income... It follows that no single hourly wage can be either above or below the

> poverty level... it all depends on whom that wage-earner is supporting... To equate an hourly wage that applies to all workers, who may be single or living in a family with other workers with a minimum income for 4-person families, is just plain wrong. The battle to raise the minimum wage should not be fought on the grounds of poverty."

Inflationary Impact

You will hear the entire gamut of economic analysis concerning the impact of minimum wage on inflation. The people I represent may not be sophisticated economists, but they certainly understand and appreciate the realities of meeting a payroll. I trust their visceral reactions. They tell me that while they have few workers at the minimum wage level, when Congress acts to set a wage policy it affects the entire payroll structure.

Simply stated, if there is an increase of 70 cents in the minimum wage over a two-year period, the person who was earning at a rate far above the minimum wage level -- let us say $4.00 an hour -- will want to go to $4.70. You have heard this phenomenon described as the "ripple effect." For some unknown reasons, Government economists give short shrift to the "ripple effect", but our members know it well.

This phenomenon is experienced not only by retailers. It is seen in every contract bargaining negotiation and can even be seen among professional athletic teams which may sign a rookie at an extraordinary salary and create a "wage push" among their veteran players.

Youth Opportunity Wage

To this point I have commented on what is in the bill and made some recommendations. Now I turn to what is not in the bill. We

believe there is a glaring oversight here because there is no provision for a meaningful youth opportunity wage. It is not enough reason to avoid that issue because the AFL-CIO declares it to be forbidden ground. Frankly, we in retailing -- the most customer-service industry in America -- want to give the young people of this country employment opportunities.

What is the advantage of a $3.15 minimum wage to the urban kid who has no job? If our nation's youth is to learn early about the work ethic, the opportunity will come only if there are jobs available. The most productive kind of vocational training is obtained on the job, and with sufficient incentive employers would provide it. On the one hand the Congress has given employers an exciting innovation with the job tax credit provision of the Tax Reduction and Simplification Act of 1977; on the other hand you now propose to raise the threshhold wage rate for entry into the labor force which can only discourage new opportunities. It doesn't make sense.

Rep. John B. Anderson of Illinois in remarks on the House floor on April 28, summarized the issue and the challenge to Congress:

> "However equivocal the evidence may be with respect to the broad issue of minimum wage legislation, there is a growing body of opinion that at least one portion of our population is clearly not aided by Congress well-intentioned efforts to place a floor under the wage of American working men and women. I am speaking about our young people. While the overall U.S. unemployment rate -- 7.3 percent -- is disconcertingly high, the unemployment rate for young Americans aged 16 to 19 is downright shocking: 18.8 percent. Even more alarming are the components of the youth unemployment tragedy: Unemployment for 16- to 17- year-olds is over 21 percent; for teenage high school dropouts, 19.9

> percent; for nonwhite teenagers, 40.1 percent, and for nonwhite high school dropouts, 61.4 percent... The 95th Congress is dutybound to explore new ideas and new programs, in short, to pay more attention to the problems of our young people."

If I can make only one point to you today, I would want you to know that the people I represent have not earned their reputation and their place in the community by exploiting young people on their payroll. It is time that we learned that the young people without training and job experience are not worth the minimum wage that is being suggested in your legislation.

Let us have a meaningful youth opportunity wage. At the very least, give it a chance. Create it; evaluate its impact; and, if we are wrong, eliminate it. Youth unemployment in this country is sadly increasing, and unless you have an effective response from the private sector the situation will not improve.

A jeweler in Prosser, Washington, a member of the Retail Jewelers of America, sent me a copy of a letter she sent to Senators Magnuson and Jackson. It poignantly speaks to the problem:

> "We are a small store, but I'm sure the larger firms must feel it also. We hire high school girls to work here and train them. We are selective because of the nature of our business but none of them would be worth starting them out at $3.00 an hour. We start them in when they are starting their Junior year in high school under the State rules and regulations. They learn to budget their time, do their work, and active in high school activities, and if they aren't to start with soon get on the honor roll in high school. We've been exceedingly proud of all our young ladies for they have gone on to college, all on the honor roll and some even in the honors programs offered by the colleges. If we were required to pay $3.00 an hour to these young people we could not afford to open up these jobs to them nor have the pleasure of seeing

them grow into confident young women. When they go on to school, most of them work to support themselves in college for they have learned a skill well, and can handle the college work as well as working. We wholeheartedly concur with Professor Finis Welch when he cited the disemployment of teenagers as the bill's main weakness. We are doing our young people in America a grave injustice when by making the minimum wage so high that business cannot afford to hire them when they want to learn to work."

This concludes my statement and I would welcome questions from the Committee.

TESTIMONY OF THE

AMERICAN RETAIL FEDERATION

on

AMENDMENTS TO FAIR LABOR STANDARDS ACT
S. 1871

before the

Subcommittee on Labor
Committee on Human Resources
U.S. Senate

August 2, 1977

STATEMENT OF THE

AMERICAN RETAIL FEDERATION

August 2, 1977

Mr. Chairman, Members of the Subcommittee, my name is Donald F. White, Vice President, of the American Retail Federation. I, too, appreciate the opportunity to appear before you today with other representatives of the retail industry on S. 1871, Chairman Williams' and Senator Javits' bill to amend the Fair Labor Standards Act.

INTRODUCTION

You have just heard the concerns over this legislation from important segments of this multi-faceted industry. They represent a significant cross-section of the 30 national retail associations and retail associations in all 50 states and the District of Columbia, who make up the American Retail Federation. The membership of the associations consist of retailers of all types and sizes, from small, locally-owned stores, to major national chains. Retailing is made up of approximately 1.5 million stores, employing nearly 14 million people - and account for over one-fourth of the Gross National Product.

IMPACT ON RETAILING

As the committee knows, increases in the minimum wage impact heaviest in the retail sector. According to Department of Labor figures, of the 4,530,000 workers who would be affected by an increase in the minimum to $2.65, 1,200,000 are employed in retailing. The industry represented here by me and my colleagues is

heavily labor-intensive. Also, retailing is an industry where productivity defies measurement, unlike other segments of industry, such as manufacturing, construction, finance, insurance and real estate and the like.

So, the rhetorical question -- as always -- is asked: can a given industry or groups of industries afford a minimum wage increase? The question is always answered affirmatively by Congress. But, the question really is much broader than that: can the U.S. economy as a whole afford the increase -- both in terms of inflation, and in terms of increasing unemployment? (In asking this question, incidentally, we are not unmindful of the social -- and political -- implications in minimum wages.)

Until it could withstand the political pressure no longer, the Administration obviously had concluded that the economy could not take an increase anywhere near the figures it ultimately agreed to: $2.65, January 1, 1978; 52% ($2.89) a year later, and 53% ($3.15) in January, 1980.

ECONOMISTS' VIEWS ON MINIMUM AND INDEXING

There is a growing number of respected economists expressing a view of outright rejection of minimum wage increases as a viable economic tool, to those who have changed their positions from one of support to one of doubt. Arthur Okun, Senior Fellow at Brookings Institution, and Chairman of the Council of Economic Advisors under President Johnson, for example, was quoted in a news story on the Administration's compromise as follows:

". . . Arthur N. Okun, President Johnson's chief economic advisor, said the higher minimum wage would add at least an extra five-tenths of 1 percent to inflation. 'That.s more inflation than if we cut taxes 40 billion,' he said.

"And contrary to what 'every knee-jerk liberal thinks,' Okun added, the minimum wage increase won't help poor people or reduce poverty 'one iota'." (Chicago Sun-Times, July 13, 1977.)

Prof. Finis Welch of the Rand Corporation, in testimony before the House Labor Standards Subcommittee on minimum wage last March, advanced empirical arguments against minimum wage increases because of their disemployment effects, and also presented arguments against the indexing increases. (pp 2-3) His Testimony is presented, with your permission, for the record with copies for Members of the Subcommittee.

Also, Professor Edward M. Gramlich, writing in Brookings Papers on Economic Activity (No. 2, 1976) raises a number of questions as to the efficacy of minimum wage, concluding with justifiable lack of enthusiasm that ". . . as long as minimum wages are kept low relative to other wages, they are not terribly harmful and in fact even have slightly beneficial effects both on low-wage workers and on the overall distribution of income. They are far from the best way of redistributing income, however, and there are definite limits to how high the minimum can be raised. . ."

Other areas; i.e., the diverse effects of minimum wage increases on a) teenagers, b) female adults, and c) male adults, which are studied by Prof. Gramlich are compelling, and warrant your attention. I am submitting his study for the record, also, with your permission.

INDEXING

By far, the most serious impact of S.1871, and its companion House bill is the introduction of automatic increases in the minimum wage through an indexing formula; i.e. a percentage of the average hourly earnings in manufacturing. Retailing objects to any form of indexing the minimum wage for the following reasons.

THE RATIONALE IS FAULTY

The rationale for indexing the Federal Minimum Wage is that of maintaining some pre-established relationship between the minimum wage and some other economic measure on the theory that the minimum wage should reflect a fixed amount of purchasing power or reflect wage movements in the economy as a whole. Proponents of indexing are trying to avoid the legislative hassles and alleged lags when Congress legislates new levels periodically, in order to maintain some "desired" relationship or parity level. They see the risk in the legislative approach as being that of no action or less favorable action that desired.

Were the index use that of price movements, e.g., the Consumer Price Index, the assumption would be that the established wage was appropriate for some time to come and that indexing was required to prevent the erosion of purchasing power. Were the

index used that of an average hourly earnings level or the poverty level the assumption would be that an appropriate relationship between that level and the minimum wage level had been established and that maintenance of that relationship was a desired objective. Proponents of this approach would find indexing a form of insurance against changes (undesirable to them) in the relationship.

Unfortunately, increases in the minimum wage would cause serious problems, rather than provide the "balance" intended by its proponents. An increase or decrease will take place under specified circumstances regardless of the economic or social consequences. For example, a labor cost increase when the Federal Government is trying to stimulate employment (particularly teenage or minority) may only result in unemployment...just the opposite of the desired effect. Efforts to stabilize prices may fail if wage cost pressures are automatically increased as the result of the inexorable application of a given index.

Unfortunately, once an index relationship is established it is difficult to undo, as often much harm must be borne before signals can be changed. The recent indexation of social security and federal retirement benefits is a fresh example.

INDEXING TAKES AWAY OPPORTUNITY FOR CONGRESSIONAL JUDGMENT

Indexing removes the human element in making a judgment on the timing and amount of minimum wage increases - including the decision as to whether there should be any increase at all. Changes in the minimum wage should be the result of public-policy

decision-making, after careful consideration of all factors involved. It is irresponsible to suffer the use of an index, without having to weigh the fallout of such increases. If we index the minimum wage, we are, in effect, admitting that our legislative processes cannot be relied on to arrive at judgments on an issue which is as much social and political as it is economic.

INDEXING IS INFLATIONARY

Irrespective of the formula, any index tied to either prices or wages, in the light of our economic experience of the last twenty years, is per se inflationary. In speaking of the use of a manufacturing average wage, Prof. Finis Welch of the Rand Corporation, and a respected labor economist said, in recent testimony before the Labor Standards Subcommittee, "...the average manufacturing wage is, itself, affected by the minimum wage. The feedback link is simply that an increased minimum will raise the manufacturing average which, if the minimum is indexed on the average, will raise the minimum and so on.." There will be a net inflationary effect, also, anytime increases are achieved by workers in manufacturing on any basis (union negotiations, built in COL escalators) not based on productivity. Whenever a wage level above actual productivity is maintained, production costs become too high, thus pushing up selling prices - "But," in the words of Gardner Ackley, former Chairman of the Council of Economic Advisors, "the dog never catches his tail."

ONE INDEX IS AS GOOD-OR-BAD AS ANOTHER

Since the introduction of HR 10210 in the 94th Congress,

at least three and perhaps four indices have been considered for use as a means of automatically increasing the minimum. HR 10210 contained the "CPI-plus-1%" formula, taken verbatim from the Civil Service Retirement Act. When the bill's sponsor discovered the formula vulnerable to valid criticism, (the 1% provision in the Civil Service Retirement Act was soon after repealed by Congress) the "Hourly Earnings Index" was next tried - but appeared only in a draft bill, which was never introduced. When HR 3744 was introduced, the bill's sponsor used the "average hourly earnings for production workers on manufacturing payrolls," defined at first as gross earnings - and later "informally" amended to mean the non-overtime average. Such vacillation indicates a lact of confidence in the concept.

...A NATIONAL STUDY COMMISSION IS NEEDED

Retailing strongly believes that the bill should provide for the establishment of a Presidential Blue Ribbon Study Commission, to be made up of management, labor, government representatives, academicians, and sociologists, whose charter would not only include the study and recommendations on indexing the minimum wage - but all aspects of minimum wage as a socio/economic tool. From its beginnings, the effects of minimum wage have been profound. It was welcomed as a great social advance. It made inroads into the evils of the sweatshop. It did provide a measure of dignity and security to the unorganized at the lowest income level who were not in a strong individual bargaining position.

It is suspected that now there are equally profound social and economic ill-effects stemming from minimum wage adjustments

in the 1970s. There are warnings that those ill-effects will multiply as the rate continues upward.

Nonetheless, a clear delineation of the effects of the minimum wage rate both for good and bad is not available to Congress. The complexity of the problem is wide ranging. Its relationship to other problems facing the economy, the welfare system to name an obvious example, are not well understood. It seems opportune, therefore, for Congress to make available the resources needed to sort out the complexities implied in the minimum wage. To accomplish that, it is proposed that Congress establish an independent study commission with a fixed term and with authority similar to that given the National Commission on State Workmen's Compensation Laws in Section 27 of the Occupational Safety and Health Act of 1970.

The commission would launch a thorough study using modern data and modern data analysis techniques to discover how the minimum wage interrelates with other social and economic questions posed by a society vastly different from that of 1938 or even the 1950s. The commission would be required to make recommendations to Congress on the appropriateness of the minimum wage rate-setting process. It would recommend on the advantages and pitfalls of indexing the minimum wage. If appropriate, it would recommend alternative solutions to the problems the minimum wage is supposed to solve.

This completes my general remarks. I will be pleased to respond to any questions you may have.

STATEMENT OF

FINIS R. WELCH

on

H.R. 3744, FAIR LABOR STANDARDS ACT AMENDMENTS

on behalf of the

MINIMUM WAGE INTERINDUSTRY GROUP OF ASSOCIATIONS

before the

SUBCOMMITTEE ON LABOR STANDARDS
COMMITTEE ON EDUCATION AND LABOR
U.S. HOUSE OF REPRESENTATIVES

March 9, 1977

Professor Finis Welch will testify on behalf of the following Associations:

American Retail Federation
American Assn. of Nurserymen, Inc.
Associated Retail Bakers of America
Assn. of General Merchandise Chains
Bowling Proprietors Assn. of America
Building Service Contractors Assn.
Independent Bakers Assn.
Independent Sewing Machine Dealers of America
Menswear Retailers of America
National Assn. of Brick Distributors
National Assn. of Chain Drug Stores
National Assn. of Men's and Boys' Apparel
National Assn. of Independent Lumbermen
National Assn. of Retail Druggists
National Beer Wholesalers of America
National Candy Wholesalers Assn.
National Concrete Masonry Assn.
National Electrical Contractors Assn.
National Family Business Council
National Home Furnishings Assn.
National Home Improvement Council
National Independent Dairies Assn.
National Insulation Contractors Assn.
National Lumber and Building Material Dealers Assn.
National Mass Retailing Institute
National Office Machine Dealers Assn.
National Retail Hardware Assn.
National Retail Merchants Assn.
National Small Business Assn
National Shoe Retailers Assn
Photo Marketing Assn.
Retail Floorcovering Institute
Retail Jewelers of America
Society of American Florists
Western Home Furnishings Assn.

STATEMENT BEFORE THE HOUSE SUBCOMMITTEE ON LABOR STANDARDS,
March 9, 1977

by Finis R. Welch, Professor of Economics,
University of California, Los Angeles

Mr. Chairman and subcommittee members:

My purpose today is to discuss the general question of indexing minimum wages. As background, I should note that throughout my career as an economist I have done empirical research on income distributions, especially on black/white differentials. As part of this program, from time to time, I have turned to questions of minimum wage effects and submit three of my research papers for the record.

To someone who would otherwise earn less than the minimum, a mandated wage floor is at best a mixed blessing. It does, indeed, carry the potential of an increased wage but it also carries the burden of finding someone to pay that wage. Because workers always have an incentive to find the best jobs they can, the fact that the wage would otherwise be below the minimum is proof in and of itself that viewed inclusively of convenience, chances for advancement, etc., the job held is the best available. It does not follow that to increase received wages, the only thing necessary is to legislate a minimum. Such legislation invariably carries the potential of reduced employment. I think most would agree that whenever legislation increases costs of hiring some workers, firms seeking to mitigate this effect shift the composition of their employment in favor of those who in the absense of legislation would receive the highest wages.

Historically, because the minimum wage has been stated in nominal terms, it has been effectively highest following newly legislated increments and has been eroded in the interim between ammendments. Usually, newly legislated increments bring the minimum to about one-half of the average manufacturing wage, but over the 1938-1974 period, the minimum

averaged (roughly) 43 percent of the manufacturing wage. The historic low of 28 percent occurred in 1950, just before that year's amendment.

Should the minimum wage be indexed and, if so, what should its level be and to what base should it be tied? There is no simple answer. Even more basic is the question of whether a minimum should exist at all. One would suppose that the authors and supporters of the initial Fair Labor Standards Act viewed the minimum wage as something that would aid workers in securing a minimal standard of living. That is, the minimum wage served as something of a broadly based welfare program. Surely, the world with respect to welfare of 1938 is not the world of today and if trends persist, tomorrow's world will not be that of today. As such, I would argue that the minimum should not be indexed. As a policy tool it deserves a place on the agenda so that it can be evaluated and re-evaluated in context.

Even if the minimum is indexed, so long as it is viewed in terms of its purchasing power, the obvious candidate for a base is the CPI or some variant of it. Indeed, in Chairman Dent's presentation of his bill all discussion of the need for indexing is in terms of erosion due to inflation, to increased costs-of-living. Congressman Dent rejects the CPI because of its volatility, but surely a version of it that dampens variability could be substituted. Many union contracts contain escalator clauses, that is, they are indexed on the CPI, not the manufacturing wage.

If the average manufacturing wage is used as the basis of indexing, there is a technical but not unimportant problem inasmuch as the average manufacturing wage is, itself, affected by the minimum wage. The feed-back link is simply that an increased minimum will raise the manufacturing average which, if the minimum is indexed on the average, will raise the minimum and so on. As an extreme example, suppose the minimum were constrained to equal the manufacturing average. The only possible solution is that all manufacturing employees would have to receive the same wage, the minimum. If at least one worker receives more than the minimum, the the average must exceed the minimum. As an even more extreme example, if the minimum were required to exceed the average, there could be no

manufacturing employment! While feedback is less severe the lower is the minimum as a specified fraction of the average wage, so long as the minimum is tied to the average this problem does not go away.

It is obvious that wherever wages are lowest, a specified minimum raises employer's costs of hiring workers the most. That is, minimum wages take their largest employment bite in low-wage industries, among low-productivity workers, and in regions such as the South where wages are lowest. As such, I thought it might be informative to compute increased employment costs corresponding to a variety of assumptions of minimum wage levels. In 1973, the federal minimum wage was $1.60/hr. In 1972, the average manufactuirng wage (excluding overtime) was $3.65. That is, the minimum was 43.8 percent of the average manufacturing wage, which is roughly the historical average for the 1938-74 period.

The May, 1973, Current Population Survey was administered to approximately 50,000 households. For the first time, that survey contains information of hourly rates for wage employees. What I have done is to calculate increased employment costs for separate worker age classes and for selected industries under alternative assumptions that the minimum is first raised from its actual level of 43.8 to 45, then to 50, 55, 60, and finally to 65 percent of the average manufacturing wage. In doing so, I have ignored the feedback problem. Increased costs are computed as though all who received less than the specified minimum have their wage increased to the minimum, while all those who received more are unaffected. I should note that my numbers overstate true effects because some of the reported wages are below $1.60/hr. This reflects reporting errors, noncompliance, and employment in sectors not covered. My numbers are understated if heightened minima alter union bargaining strategies such that they argue more effectively for increased wages to maintain their position relative to the minimum. Nonetheless, the picture these numbers paint is plausible and differences associated with different minimum wage levels are not subject to the same defects.

Calculations are reported in Table 1. Whenever employment costs are compared across age groups, as Panel A, the evidence is that if the minimum were 45 percent of the average manufacturing wage, only the very

young and very old would be much affected. Not so if the minimum is raised to 60 percent of the manufacturing wage. There, average costs are raised above actual 1973 levels in all groups, although effects remain more pronounced for the youngest and oldest wage workers.

In Panel B, workers are stratified by industry of employment. As is to be expected, effects are greatest in low-wage industries, agriculture, retail trade, and services, and increase sharply as the minimum wage is raised. With a 60 percent manufacturing index, the agricultural wage bill would be increased 18.6 percent, 14.5 percent for retail and 6.6 percent for services. Manufacturing, a high-wage industry, appears little affected.

Table 1

Percentage Increases in Employment Costs of Wage Workers for Varying Levels of the Minimum Wage Above the $1.60/hr. Minimum of 1973. An Illustration [a]

	Minimum Wage as a Fraction of 1972 Average Manufacturing Wage ($3.65/hr)				
	.45	.50	.55	.60	.65
A. Workers by Age, All Industries:					
14-17 years	14.9	22.1	30.8	41.2	51.9
18-19	1.9	3.9	7.0	11.7	17.0
20-25	0.5	1.2	2.1	3.8	5.8
26-35	0.3	0.6	1.1	1.9	3.0
36-60	0.4	0.7	1.3	2.3	3.6
61-65	0.6	1.3	2.4	4.0	5.9
66 and over	3.0	5.2	8.1	12.3	17.1
B. Workers by Industry, All Ages:					
Agriculture	4.5	7.8	12.1	18.6	25.8
Retail Trade	3.1	5.7	9.5	14.5	20.1
Wholesale Trade	0.1	0.4	1.1	2.4	4.1
Services	0.8	2.0	3.9	6.6	9.9
Manufacturing	0.1	0.3	0.6	1.3	2.3

[a] Increments in costs are computed by raising wages of those below the specified minimum to the minimum.

The general pattern is that effects are greatest where wages are low and that effects accelerate rapidly as the minimum (as a proportion of the manufacturing wage) is increased.

While all of this may be of some interest on its own. the impact is heightened by realizing that whenever legislated wages increase costs, employment suffers.

In one of the papers submitted, I summarize estimates of disemployment effects among states in 1970, associated with minimum wage laws. This research, "Effects of Minimum Wages on the Level and Age Composition of Youth Employment" (co-authored with James Cunningham) focused on three teenage groups, those 18-19, 16-17, and those 14-15 years old. Employment in each group is measured relative to that of prime-aged males. The laws considered include state statues as well as the $1.60/hr federal minimum of 1970. Effects of federal legislation vary among states because coverage varies and because wage levels, themselves, vary.

We estimate that, on average, for each percentage point increase in costs of employing those 18-19, costs for those 16-17 increase 1.7 percent and costs for those 14-15 rise by 3.3 percent. This says only what we know, that older teenagers earn higher wages so that a specified nominal minimum results in a smaller proportionate increment in costs.

But, there is strong statistical support for the idea that employment of those whose cost rises most is, itself, most restricted. For example, we estimate that following an increased minimum, for each percentage point increment in costs of employing those 18-19, their employment *falls* 1.35 percent, employment of those 16-17 *falls* 2.4 percent, and employment of the 14-15 group *falls* 4.0 percent.

As of 1970, we estimate that minimum wages increased costs of employing teenagers, on average, by about 15.0 percent for the nation and reduced teen employment 22 percent. In low-wage states such as Arkansas where the (estimated) effect is greatest, we estimate that minimum wages have reduced total teenage employment by 40 percent and in high-wage states like Illinois and New Jersey where effects are least, minimum wages have reduced teen employment 14 percent.

These numbers are obviously subject to error, but if they are in the ball park then the story is clear. "Some gain and some lose from minimum wage legislation. Those who gain are those who would receive the lowest wage and are lucky enough to find jobs. Those who lose, lose their jobs. The evidence is that many lose."

In closing, I should apologize for restricting my discussion of dis-employment effects to teenagers. Like other economists, I have worked with the data where the problem is the easiest. Teenagers are important, but so are all those of low productivity. We do not have evidence of the effects of minimum wages on their chances for finding jobs. But, based on the evidence for teenagers, we would guess that employment opportunities for all low productivity workers have been restricted.

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The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment

By Marvin Kosters and Finis Welch*

Despite a generation of experience with legal minimum wages and numerous attempts to analyze their impact, there remains wide disagreement on who is affected and how they are affected.[1] These differences in opinion reflect the inconclusive and often inconsistent nature of much of the evidence. Studies of minimum wage effects have varied widely in terms of the kinds of effects examined, methodology, data sources, and interpretation. Some studies "find" a significant impact while others detect no important influence on employment.[2]

* U.S. Cost of Living Council; Graduate Center of the City University of New York and the National Bureau of Economic Research, respectively. This research was performed at the RAND Corporation pursuant to a contract with the U.S. Office of Economic Opportunity, with some support from the National Bureau of Economic Research Faculty Fellowship to Welch. The opinions expressed herein are those of the authors and should not be construed as representing the opinions or policy of any agency of the United States Government. We are indebted to Sam Bowles, Steve Carroll, and Victor Fuchs for valuable comments, and to Thomas Moore for supplying the minimum wage data.

[1] For example, A. Philip Randolph states that increasing the minimum wage would do most to raise Negroes out of poverty, while Milton Friedman opines that the minimum wage law probably does Negroes the most harm of all the laws on the statute books in this country. In George Meany's view, youth unemployment is not due to provisions of the Fair Labor Standards Act, while Yale Brozen argues that increased minimum wages lead to teenage job loss, barring them from opportunities to learn job skills and impairing their work attitudes and ambitions.

[2] Since the primary purpose of this study is to present new empirical evidence on minimum wage effects, previous studies cannot be adequately summarized and evaluated here. Our methodology and the effects we analyze are sufficiently different to make direct comparisons of results difficult. So we have chosen to reference a number of relevant studies without making detailed comparisons.

One of the principal issues common to each of these studies is the manner in which other influences that are always at work and which tend to obscure the effects of changes in minimum wage legislation, are taken into account. For example, it is apparent from the employment and unemployment data that changes in the labor market are predominantly generated by vagaries in the pace of economic activity superimposed on a generally rising trend in productivity, incomes, and employment. As the pace of economic activity varies, effects are not distributed evenly among productive inputs. Our objective is to analyze the way changes in aggregate employment are distributed among demographic groups and to see how minimum wage legislation has altered this distribution. Historical experience leads us to expect that employment is likely to vary more than the stock of machines, and the purchases of machines (investment) may vary even more than employment. Among different classes of workers the impact of variation in economic activity is also uneven the distribution of employment is affected by both cyclical and secular forces which are not necessarily congruent. Industrial and occupational requirements, labor force participation trends, and the age composition of the population, influence employment patterns only gradually. Changes in the level and coverage of minimum wages are abrupt, and may be only indirectly related to secular forces. If these minimum wage changes have differentially affected employment oppor-

tunities for demographic groups, it should be possible to obtain evidence of these effects, after netting out cyclical movements and taking long-term trends into account, and that is our objective.

This is an analysis of changes in the distribution of employment across age-color-sex classes. A model is developed to characterize employment patterns of different demographic groups through time. It allows for growth of aggregate employment along a fluctuating path and for long-term trends in the composition of total employment. In this framework, we estimate the effects of minimum wage legislation on the distribution of employment and on the distribution of changes in employment between whites and nonwhites, between males and females, and between teenagers and adults. We do not estimate the effects of minimum wages on total employment, instead employment is assumed to be given while we focus upon its distribution among various groups.

I. The Model

Our model relies heavily on the distinction between persistent employment trends and deviations from trend. It is of the form:

$$(1) \qquad E_{it} = \gamma_i E_{pt} + \beta_i E_{rt} + u_{it},$$

where E_{it} is the number of workers in the ith age-color-sex class employed in period t; E_{pt} and E_{rt} are aggregate employment measures. Operationally defined, E_{pt} is an extrapolation of previous employment levels and is considered as a measure of "normal" employment; that is, it is our estimate of the level of employment consistent with the economy's long-run trend. The term E_{rt} is the deviation between actual aggregate employment, E_t, and the projection, E_{pt}.[3] The coefficients, γ_i and β_i, are, respectively, the share of the ith group in normal and transitional employment. They are obviously determined by an economic system and can be affected by many things. Here they are assumed to be simple exponential functions of time to capture secular effects. The γ and β are also assumed to be dependent on the minimum wage level and the extent of coverage. The residual, u_{it}, is always with us.

The functional definition of employment shares is introduced into the model as follows:

$$(2) \qquad \log \gamma_{it} = \log \gamma_{oi} + \eta_{pi} \log M_t + t \log (1 + r_i)$$

$$(3) \qquad \log \beta_{it} = \log \beta_{oi} + \eta_{ri} \log M_t + t \log (1 + r_i)$$

The trend factor, r_i, is the long-term growth rate of the employment share for the ith class. The variable M_t is the "effective" minimum wage and is operationally defined in a later section, and η_{pi} and η_{ri} are elasticities of employment shares with respect to the minimum wage. The data used to estimate the model are quarterly averages of seasonally adjusted employment from 1954 through 1968 for eight age-color-sex classes.

Employment Shares

Our hypothesis is that the composition of changes in employment differs from the normal employment distribution that would exist under stable demand. Short-term fluctuations reflect the hiring, retention, and layoff decisions of firms as they adjust to changes in product demand and

[3] The operational definition is:

$$E_{pt} = (1/2) E_{t-4} (1 + r)^1 + (1/3) E_{t-8} (1 + r)^8 + (1/6) E_{t-12} (1 + r)^{12}$$

where E_{t-i} represents aggregate employment in the $(t-i)$th quarter and r is an estimate of the long term quarterly growth rate in aggregate employment. The estimated quarterly growth rate is 0.0035 as reported in the Appendix along with a description of how it is estimated. Thus E_{pt} is a weighted average of three projections based on observations one, two, and three years in the past. The weights are admittedly arbitrary, but experiments with four alternative sets of weights showed only slight changes in resulting estimates.

there is no reason why these effects would be uniform. For example, hiring costs differ among classes of workers; it is widely held that costs of hiring low-productivity, low-wage workers are generally less than for more highly paid workers.[4] Further, since performance in many jobs depends on the amount of firm-specific training acquired by workers, firms often invest in this sort of training.[5] But, if a firm has an investment in a worker it suffers a capital loss when his employment terminates. The implication of these differences in hiring and firing costs is that relatively low-wage, low-productivity workers and those with little firm-specific investment are likely to share disproportionately in short-term changes in aggregate employment, i.e., they are more "marginal."

The employment projection, E_{pt}, can be viewed as a normal level of employment toward which labor input combinations have been brought more nearly into long-term equilibrium than would be the case for employment levels during periods of change. The set of γ's represents the distribution of normal employment among age-color-sex classes, so that γ_i is the fraction of normal aggregate employment accounted for by the ith class. The estimated fraction is, of course, constrained by a constant trend factor and subject to a functional dependence on M.

Transitional employment, E_{tt}, is defined as current less normal employment and reflects shifts during a transitional period. Thus, during strong short-term expansion, transitional employment is positive and becomes negative during a slowdown or contraction. The set of β's represents the distribution of transitional employment among classes of workers, and β_i is the fraction of transitional employment accounted for by the ith class.

Abstracting from trends and at a given minimum wage level, the ratio of the share of a group in transitional employment to its share in normal employment is a convenient summary measure of the cyclical sensitivity of employment for a class of workers. This measure, β/γ_i which we call the coefficient of marginality, is the elasticity of employment in a group with respect to deviations in aggregate employment about its normal path.[6]

This simple model has the capacity to produce the kinds of changes in the distribution of employment that are well known to all observers: some share much more than others in contractions and expansions. For example, if $\beta_i/\gamma_i > 1$, employment of workers in the ith class would vary more than proportionately with the aggregate. But if $\beta_i/\gamma_i < 1$, fluctuations would be dampened. In this sense the model is only descriptive and, in fact, is somewhat similar to the last-hired first-fired models.

In addition to its simplicity, the value of this model is that it can be treated as "economic" instead of being purely descriptive. Our interest is in minimum wage effects, so other variables are relegated to trend. Also, we do not in any way other than pure speculation—except for the obvious case of minimum wage legislation—address the question of why transitional, relative to normal, shares are larger for some groups than others. We would expect that workers who are marginal ($\beta/\gamma > 1$) to the workforce may be characterized by little investment in firm-specific human capital and relatively low hiring costs. Conversely, workers in a class with a co-

[4] At this point, this is only an assertation which turns out to be consistent with our empirical observation that low-wage workers are more marginal to the workforce

[5] See Gary Becker for a discussion of investment in human capital and the distinction between general and firm-specific investment.

[6] Assume that employment has been constant for several periods such that $E_{pt} = E_i$ and $E_{tt} = 0$. Let $E_{t+1} = (1-\alpha)E_i$ to reflect a 100 α% decline in employment. And let $E_{t+1} = E_i$ with $E_{t+1} = -\alpha E_i$. Employment in the ith group is $E_{it} = \gamma_i E_i$ and in the next period becomes $E_{it+1} = \gamma_i E_i + \beta_i(-\alpha)E_i$. The percentage change $(E_{it+1} - E_{it})/E_{it} = (-\alpha)\beta_i/\gamma_i$.

efficient of marginality less than unity can be viewed as intramarginal and are likely to be relatively expensive to hire and to possess relatively greater investment in firm-specific human capital.

It would be inappropriate to regard the γ's and β's as constant over the long term. For example, rising labor force participation rates for women lead to an increase in their share of aggregate employment. Similarly, an increase in the teenage fraction of the population increases teenage shares. The relative growth rates, r_i, allow for the influence of these and other long-term factors.[7]

Minimum Wages

The way changes in legislated minimum wages alter the distribution of changes in aggregate employment is an empirical question. But speculation can suggest the nature of these effects.

The effects upon shares of normal employment are most obvious. To a competitive, profit-maximizing firm, a minimum-wage law precludes hiring workers whose productivity is less than the minimum wage. As a first-order approximation, the percentage change in employment of a particular group of workers is given by the product of the demand elasticity for the group's services and the proportionate increase implied by the minimum wage over the wage that otherwise would have existed. Barring large discrepancies across groups of workers in demand elasticities, we would simply expect unemployment effects to be greatest for those who otherwise would have earned the lowest wages.

There is one added dimension, since our analytical unit is a demographic group for which there is no presumption of intragroup homogeneity. We should consider wage distributions instead of single values. Nonetheless, we expect the unemployment effects to be greatest for groups with low average productivity and that, as a result of minimum-wage legislation, their employment shares should fall with compensating increases in the shares of those who would otherwise earn more.

The effect of minimum wages upon the distribution of changes in aggregate employment is less obvious than for normal employment. Consider a business cycle as a sequence of rising then falling demand functions for each of the demographic groups. Factors determining the extent of these shifts include hiring-firing costs and skill specificity as discussed above. As demand falls for a particular group, the extent of the associated change in employment is determined by two factors: the extent of the demand change and the downward flexibility of wages. But, nothing is less flexible downward than a legislated wage. If the minimum wage is an effective downward constraint—as would be true of demographic groups with low average productivity—then it serves to increase employment fluctuations associated with demand changes.

Our hypothesis is that *minimum wages serve to reduce shares of normal employment and to increase shares of transitional employment for those groups of workers with low average productivity.*

The minimum wage variable used here, M_t, is defined as the legal minimum relative to the average wage in manufacturing, multiplied by the percent of total employment covered by the legislation. Deflation by manufacturing wages reflects the erosion of the real minimum wage between legislative adjustments that results from increases in workers productivity and the general price level. The coefficients η_p, and η_r, in equations (2) and (3) are, respectively, elasticities of the share of normal and transitional employment with respect to the effective minimum wage. Thus, η_r, $-\eta_p$, is the elasticity of the coefficient of

[7] Estimated relative growth rates are reported in the Appendix.

marginality. For those groups with low productivity relative to the average, our hypothesis is that $\eta_r - \eta_p > 0$ so that increases in the minimum wage increase their marginality.

While no other short-term factors influencing employment shares are explicitly analyzed, their combined influence is, of course, reflected in the employment share estimates. Excluding them from the model need not obscure the influence of the minimum wage unless their influence is highly irregular across cycles or correlated with minimum wage changes.

II. The Estimates

Once employment shares are allowed to be functionally dependent upon the minimum wage, the model is non-linear and contains four parameters for each equation which represents a demographic group. There are eight groups corresponding to the intersection of the three binary classifications: age (teenage-adult); color (white-nonwhite); and sex.[8] The employment data refer to quarterly averages for the period 1954–68. The estimation technique is non-linear least squares and is described in the Appendix. Here, only summary statistics are reported.

Employment Share Estimates

Estimates of employment shares (γ_{it} and β_{it})will vary over time because of the trend and because of changes in the effective minimum wage. Averages for the 1954–68 interval are reported in Table 1. The overwhelming feature of these estimates is the relative vulnerability of teenagers to employment change. A 1 percent decline in aggregate employment is accompanied by a 3.5 percent decline in teenage employment compared to a 0.8 percent decline for adults. Teenagers account for 6.3 percent of normal and 22.1 percent of transitional employment.

These estimates of relative employment stability imply that during a contraction, teenagers are four times as likely to lose their jobs as adults. That fluctuations in teenage employment are more pronounced than for adults is consistent with the prediction of the theory of firm-specific human capital; teenagers are typically less skilled and have less work experience. Within the teenage class, nonwhites appear to be most vulnerable to changes in aggregate employment, the estimate being that a 1 percent decline in aggregate employment reduces nonwhite teenage employment by 5 percent.

TABLE 1—AVERAGE SHARES OF NORMAL AND TRANSITIONAL EMPLOYMENT AND AVERAGE COEFFICIENTS OF MARGINALITY: QUARTERLY AVERAGE OF U.S. CIVILIAN EMPLOYMENT 1954–68

Employee Group	Normal Employment, γ	Transitional Employment, β^*	Coefficient Marginality $\bar{\beta}/\gamma^*$
Adults (20+)	.934	.779	0.83
White Males	.570	.425	0.75
Nonwhite Males	.058	.079	1.34
White Females	.269	.240	0.89
Nonwhite Females	.040	.036	0.90
Teenagers (16–19)	.063	.221	3.51
White Males	.032	.117	3.66
Nonwhite Males	.004	.018	4.56
White Females	.025	.074	2.95
Nonwhite Females	.002	.011	4.97

Source: See note to Table 2.

* Unconstrained estimates of $\bar{\beta}$ sum to 1.056. The estimates shown are normalized by dividing the unconstrained estimates by 1.056.

[8] Since the eight age-color-sex classes together exhaust aggregate employment, one of the equations is redundant. The consistency question could be resolved in several ways: 1) One of the equations could be discarded, 2) the entire set of equations could be estimated subject to a consistency constraint, or 3) the consistency constraints could be used to normalize the estimates. Because the specification is non-linear in the minimum wage variable and there was no obvious way to impose the constraints in the estimating procedure, we have normalized the average employment share estimates (Table 1) and reported deviations from other implicit constraints (see the Appendix).

The pattern of employment change among adults is also of interest. Apparently both white and nonwhite female adults experience employment variations that are proportional to the aggregate. For males, on the other hand, white employment appears to be considerably more stable than for nonwhites. In fact, our estimate is that during a contraction in aggregate employment a nonwhite adult male is 1.8 times as likely to lose his job as a white adult male. The converse is also true, a point that helps to explain the remarkable rise in median nonwhite family income (relative to white) during the last decade and underscores the vulnerability of this gain to a slackened pace of economic activity.[9]

Minimum Wage Estimates

Since teenagers are marginal to the workforce, they would be expected to fare especially well during explansionary periods such as the decade from 1958 to 1968. Yet this is not reflected in their unemployment rates.[10] If changes in minimum wage legislation during this period have had a more pronounced influence on employment of teenagers than adults, these changes may be capable of explaining a large part of the divergent trends in adult and teenage employment patterns. Between 1954 and 1968, legal minimum wages increased from $0.75 to $1.60 per hour, and relative to average hourly earnings in manufacturing they increased from .42 to .53. In addition, expansion of coverage over that period led to 62 percent of aggregate employment covered by minimum wage legislation in 1968 compared to 46 percent in 1954.

It is possible that part of the sustained high level of teenage unemployment over this period is attributable to the postwar baby boom that resulted in a large relative increase in the teenage population.[11] Because the increase in the teenage workforce was large, it may have been difficult for the economy to provide sufficient teenage employment opportunities to absorb the increase. The long-term trend adjustments in our model are based on trends in employment that occurred during the period, however, and the estimates of minimum wage effects obtained from the model pertain to changes in employment patterns among those employed. Rising minimum wages, in addition, may have led to lower levels of aggregate employment than would otherwise have occurred and resulted in crowding of low-productivity workers into sectors not covered by minimum wage legislation, but these effects are not explored in this analysis.

Our estimates of minimum wage elasticities are reported in Table 2. Recall that these estimates do not test for employment effects per se, rather, they take total employment as given and test to see if the level of the effective minimum wage affects the coefficients of marginality for each of the groups. Interestingly enough, the estimated pattern of the impact of minimum wage increases on the incidence of employment fluctuations is quite similar to the pattern of marginality reported in Table 1, so that minimum wages appear to exacer-

[9] Between 1958 and 1968 the relative income position of nonwhite families increased from .51 to .63 (see *Current Population Reports*). In the post-World War II period, the ratio of nonwhite to white median income has moved inversely with aggregate unemployment rates, reaching its post 1950 low in 1958, the year with the highest unemployment rate since World War II when 6.8 percent of the labor force was unemployed, and relative nonwhite family income was higher than any time before in 1968 when unemployment was 3.6 percent.

[10] For example, between 1958 and 1968 the unemployment rate for white adult males dropped from 5.5 to 2.0 percent and for nonwhite adult males from 12.7 to 3.9. Yet white teenage male unemployment only dropped to 10.1 from 15.7 and nonwhite teenage males dropped from 26.8 to 22.1

[11] Between 1958 and 1968, for example, the teenage population increased from 9.5 million to 14.2 million or by 49.5 percent. And during the same period the adult population increased by only 13.6 percent.

TABLE 2—ESTIMATED ELASTICITIES OF EMPLOYMENT SHARES AND OF MARGINALITY COEFFICIENTS WITH RESPECT TO THE EFFECTIVE MINIMUM WAGE

Employee Group	Normal Employment η_p[a]	Transitional Employment η_r[a]	Coefficient of Marginality $\eta_r - \eta_p$	R^2
Adults				
White Males	.032	1.44	−1.47	.947
Nonwhite Males	−.004[b]	−.47[b]	−.47	979
White Females	.032	−1.00[b]	−1.03	994
Nonwhite Females	−.017[b]	.08[b]	.10	990
Teenagers				
White Males	−.331	2.48	2.81	949
Nonwhite Males	−.356	3.88	4.24	712
White Females	−.241	3.30	3.54	925
Nonwhite Females	−.301	5.31	5.61	744

[a] Since this is a "distributional theory," we have the implicit constraints $\sum_i \gamma_i \eta_{pi} = \sum_i \beta_i \eta_{ri} = 0$. These constraints are not imposed. The estimates are that $\sum_i \gamma_i \eta_{pi} = .007$ and $\sum_i \beta_i \eta_{ri} = -.233$.

[b] Heuristic t-statistic less than 2.0. The t-statistics are calculated from observed changes in residual sums-of-squares as the square root of the ordinary F-statistic for testing the significance of a constraint that the coefficient on the variable in question is zero. Standard errors are not computed for the difference, $\eta_r - \eta_p$.

bate the existing structure. Minimum wage increases have heightened the employment vulnerability of teenagers, apparently by reducing their share of normal employment and increasing their share of transitional employment. Thus, the effect seems to be largely one of shifting teenagers from the normal to the transitional work force. Again, nonwhites are more affected than whites. For adults, the overall effect of increased minimum wages is to stabilize their employment. This increased stability occurs through shifting the incidence of employment fluctuations to teenagers, and the stabilizing effect is strongest for white adult males. It also appears that increased minimum wages may have stabilized employment for nonwhite adult males, although the effect is apparently very small and the statistical insignificance of the elasticities precludes any strong statements.

The estimates indicate that increases in the effective minimum wage have had a significant influence on the short-term employment stability of different classes of workers. But it is also important to consider how much employment stability has been affected by minimum wage changes in the range that we have experienced. Suppose, for example, that the effective minimum wage were suddenly changed from its average level in the first five-year period of our sample (1954–58) to the level prevailing in the third five-year period (1964–68). On the basis of the elasticities reported in Table 2, by how much would we predict coefficients of marginality to change from each of the groups? The predicted changes are: *white adult males, down 33 percent. Nonwhite adult males, down 12 percent. White adult females, down 25 percent. Nonwhite adult females, no change. And all teenage coefficients of marginality would more than double!*

III. Summary and Conclusions

That employment of nonwhite workers is more sensitive to the pace of economic activity than for whites, and teenagers

more sensitive than adults, are not surprising results and these phenomena have been noted in earlier studies. What is noteworthy about our results, however, is the manner in which increases in minimum wages appear to have altered the distribution of employment and sensitivity to short-term changes in employment. By focusing on the distribution of employment and how that distribution changes over the cycle, we have developed estimates of some aspects of minimum wage effects that have not previously been analyzed.

Our evidence indicates that increases in the effective minimum wage over the period 1954–68 have had a significant impact on employment patterns. Minimum wage legislation has had the effect of decreasing the share of normal employment and increasing vulnerability to cyclical changes in employment for the group most "marginal" to the work force—teenagers. Thus, as a result of increased minimum wages, teenagers are able to obtain fewer jobs during periods of normal employment growth and their jobs are less secure in the face of short-term employment changes.

Minimum wage legislation has undoubtedly resulted in higher wages for some of the relatively low productivity workers who were able to obtain employment than these workers would have received in its absence.[12] The cost in terms of lost employment opportunities and cyclical vulnerability of jobs, however, has apparently been borne most heavily by teenagers. And a disproportionate share of these unfavorable employment effects appears to have accrued to nonwhite teenagers. The primary beneficiaries of the shifts in the pattern of employment shares occasioned by minimum wage increases were adults, and among adults, particularly white adult males.

[12] The misallocation of employment that results from partial coverage of minimum wage legislation, however, suggests that some workers may receive lower wages than they would have in the absence of minimum wage legislation.

Appendix

The model is estimated one equation at a time without imposing the constraints of internal consistency, $\sum_i \beta_{it} = \sum \gamma_{it} = 1$ and $\sum_i \eta_{pi}\gamma_{it} = \sum \eta_{ri}\beta_{it} = 0$. The estimation technique is non-linear. We simply iterate over values of η_p and η_r to minimize the residual sum of squares. The typical equation (omitting subscript, i) is

$$E_t = \gamma_0 Z_{1t} + \beta_0 Z_{2t} + U_t$$

where Z_1 and Z_2 are constructs that are respectively proportional to E_{pt} and E_{rt}, where the factors of proportionality are of the form

$$log\,(Z_{1t}/E_{pt}) = \eta_p\, log\, M_t + t\, log\,(1 + r)$$

$$log\,(Z_{2t}/E_{rt}) = \eta_r\, log\, M_t + t\, log\,(1 + r)$$

There are 60 observations and 4 parameters, γ_0, β_0, η_{pi}, η_{ri} are estimated. For particular values of η_p and η_r, Z_{1t} and Z_{2t} are computed and the OLS regression of E_{it} on Z_1 and Z_2 is then calculated. Iterating over η_p and η_r, that solution is selected to minimize the residual sum of squares.

The standard errors of $\hat{\gamma}_0$ and $\hat{\beta}_0$ are computed as though the regression of E_i on Z_1 and Z_2 were of the standard form except that degrees of freedom are 56 instead of 58. The standard errors of $\hat{\eta}_{pi}$ and $\hat{\eta}_{ri}$ are computed heuristically to measure the sensitivity of the residual sum of squares to the constraints $\eta_{pi} = 0$ and $\eta_{ri} = 0$. Specifically, to compute the standard error of $\hat{\eta}_p$ we first estimate the equation as described above and then impose the constraint, $\eta_{pi} = 0$ and iterate on η_{ri} to minimize the residual sum of squares. Let Q_0 represent the unconstrained residual sum of squares and let Q_1 represent the constrained sum of squares. Then compute

$$\text{“}F_{1,56}\text{”} = \frac{Q_1 - Q_0}{Q_0/56},$$

$$\text{“}t_{56}\text{”} = (\text{“}F_{1,56}\text{”})^{1/2},$$

and

$$\sigma(\hat{\eta}_r) = \frac{\hat{\eta}_r}{\text{“}t_{44}\text{”}}$$

The standard error of $\hat{\eta}_r$ is computed the same way.

The employment data are quarterly averages computed from seasonally adjusted monthly data reported in *Employment and Earnings*. The minimum wage and coverage data were provided by the U.S. Dept. of Labor and supplied to us by Thomas G. Moore. The minimum wage data are reported in Kosters and Welch.

The quarterly growth rates in employment for each of the groups are computed as observed growth rates between the year 1956-III to 1957-II and one decade later, 1966-III to 1967-II. This period was chosen because overall unemployment rates were similar in both years. The relative growth rate, r_i, is the quarterly growth rate of employment in this group relative to that of aggregate employment over the decade. They are:

	White Males	Nonwhite Males	White Females	Nonwhite Females
Adults	−.0023	−.0003	.0023	.0027
Teenagers	.0077	.0029	.0071	.0063

Quarterly growth rate in Aggregate Employment = .0035.

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MINIMUM-WAGE LEGISLATION IN THE UNITED STATES

Finis Welch

"A $3.50 industrial minimum wage would go a long way toward perpetuating the family farm. . . ."

Robert Evenson, *Oral Tradition*

A legislated wage floor has existed for some sectors of the economy since the Fair Labor Standards Act of 1938. Aside from one major deviation in 1945, the legislation has been updated about every five years, bringing the minimum wage to one-half the average manufacturing wage. In the interims, the minimum is eroded by inflation and rising labor productivity. Table 1 lists nominal minima and relative minima before and after legislative changes.

Coverage is incomplete and depends on industry and product line and, in some cases, gross sales of the firm. For twenty-three years after the initial legislation, coverage was unchanged.[1] The industries included were the more "industrial" or machine-intensive; slightly over half of total employment was in firms subject to the federal legislation. Extensions in 1961 and again in 1966 raised the proportion of covered workers to 60 and then to 80 percent. Table 2 summarizes these coverage rates for 1947 and for years following the extensions in 1961 and 1966. Agriculture (where coverage was extended to some large farms in 1966) and government are excluded from these data. Among

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[1]The 1950 amendment merely clarified the language describing coverage provisions.

TABLE 1

Changes in Federal Minimum Wages, 1938–74

	Minimum Wage		
		Relative to Manufacturing Wage	
Year	*Nominal*	*Before Legislated Increase*	*After Legislated Increase*
1938 (FLSA)	$0.25	...	0.403
1939[a]	0.30	0.398	0.478
1945[a]	0.40	0.295	0.394
1950[b]	0.75	0.278	0.521
1956[b]	1.00	0.385	0.512
1961[b]	1.15	0.431	0.495
1963[a]	1.25	0.467	0.508
1967[b]	1.40	0.441	0.494
1968[a]	1.60	0.465	0.531
1974[b]	2.00	0.374	0.467

[a]Programmed increment contained in prior legislation.
[b]Legislated amendment to FLSA of 1938.
Source: Manufacturing Wage is average annual hourly wage published in U.S. Department of Labor (1970).

TABLE 2

Percentage of Employed Persons in Firms Covered by Minimum-Wage Legislation by Industry and for the Aggregate, Selected Years

	Year		
Industry	*1947*	*1962*	*1968*
Mining	99	99	99
Construction	44	80	99
Manufacturing	95	95	97
Transportation and communication	88	95	98
Wholesale trade	67	69	76
Retail trade	3	33	58
Finance, insurance, and real estate	74	74	74
Services	19	22	67
Aggregate	56	61	79

Source: Unpublished data obtained from the U.S. Department of Labor, Bureau of Labor Statistics.

the industries shown, the extension of coverage in retail trade and services is the most notable.

In 1972, the House of Representatives and the Senate approved amendments to the Fair Labor Standards Act but failed to reconcile differences when the House refused to send its bill to conference. The amendment approved by the House would have increased the existing $1.60 per hour minimum to $2.00 in two steps. The unique feature of this bill was that it provided a lower minimum for youths. The Senate version had no youth differential and raised the minimum in two steps to $2.20. It also extended coverage to government employees and domestic workers and intensified coverage in retail sales and service industries.

One year later, in August 1973, the House and Senate reached a consensus when each approved a bill that was, in fact, remarkably similar to the earlier Senate version. It contained no youth differential and extended coverage to about 5 million federal, state, and local government employees. Coverage in the private nonagricultural sector was increased from 79 to 82 percent of the work force by including domestic workers and adding some retail-trade and service employees.

The nominal minimum specified by this amendment would have increased to $2.20 by July 1974 (first rising to $2.00 within two months of enactment) for most workers. (The 1973 average manufacturing wage was $4.07.) A slower rate of ascent was allowed for sectors newly covered in 1966 and for covered agricultural workers. In the fall of 1973, President Nixon vetoed this bill; as a result, the minumum wage fell to less than 40 percent of the average manufacturing wage for the first time since the mid-1950s.

On March 28, 1974, Congress cleared a bill, promptly approved by the President, that expanded coverage by 7,000,000 workers. Of these, 5,000,000 are federal, state, and local government employees; about 1,300,000 are domestic employees; 654,000 work for chain stores, where the $250,000 annual sales exemption is being phased out during the period to January 1, 1977; 200,000 are employees of motion-picture theaters; and around 100,000 are employed by miscellaneous small firms whose exemptions were eliminated. The new minima, $2 per hour beginning May 1, 1974, $2.10 in January 1975, and $2.30 as of January 1, 1977, are roughly 45 percent of "guestimated" average manufacturing wage rates. Aggregate coverage in the private nonagri-

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cultural sector has increased to about 83 percent of all workers, with retail sales (new coverage approximately 63 percent) and services (coverage rising to 83 percent) most affected.

The Fair Labor Standards Act does not encompass all minimum-wage legislation. For example, the U.S. Department of Agriculture has administered a minimum wage for sugar workers since 1934, and many states have their own wage regulations. In 1958, thirty-two states had some form of minimum-wage legislation (U.S. Dept. of Labor, 1963). Legislation in twenty-one of these was restricted to women and minors, and in only three states (Alaska, Connecticut, and New York) did minima exceed the federal level. As is to be expected, coverage by state legislation usually extends only to those industries (retail trade, laundry and dry cleaning, personal services, etc.) not covered by federal legislation. As federal coverage is extended, state minima that fall short of the federal level are becoming unimportant.

The objective of this paper is to summarize evidence of the employment effects of minimum wages. Section I spells out some of the analytical issues and describes available estimates of impact for the earlier legislation. Section II is really a separate paper. It tackles the question of incomplete coverage, which has been ignored in all models designed for empirically estimating aggregate effects. Based on a model that takes account of incomplete coverage, estimates are presented of minimum-wage effects on the aggregate teen-age/adult employment ratio and on the industrial distribution of teen-age employment. Presumably, uneven industrial coverage would change the employment patterns of low-wage workers. Section III is speculative. It considers a variety of problems of efficiency and equity surrounding minimum-wage legislation to identify major unresolved questions, both analytical and empirical.

I. THE ISSUES AND EVIDENCE

The purpose of this section is to state as simply as possible some a priori implications of minimum-wage legislation and to summarize that part of the empirical literature which, in my opinion, has increased our knowledge of minimum-wage effects on employment and which has not been supplanted by more recent studies using either superior techniques or data. Many very good studies are omitted in this summary,

either because they have been supplanted by more recent evidence or because their scope is limited to effects on particular industries or to smaller areas of the country.[2] The emphasis here is upon employment effects for particular demographic groups for the country as a whole. A more complete survey is contained in the study of the U.S. Department of Labor, *Youth Unemployment and Minimum Wages* (1970). The empirical literature is largely restricted to effects on youth employment, not because older workers--especially the aged--or lower-wage workers of intermediate age are less affected, but because the data are less complete for these workers.

It is my view that knowledge of the direction, i.e., the qualitative dimensions, of effects is quite good but that empirical estimates lack precision. The distinction between our knowledge of direction and of magnitude of effects is a distinction between the state of the theory and the state of the data. While the theoretical implications are quite simple, the data are not very good. First, there have been only four legislative amendments, with an additional four adjustments or step-increments prescribed by preceding legislation, and the data forming the basis of any reasonable analysis of distributional effects among demographic subgroups of the population are available only since 1954, originating with the household data of the Current Population Surveys (CPS). Since 1954, there have been only five legislative modifications, of which three increased the nominal minimum and another two extended coverage and increased the minimum. (The 1974 amendment is excluded because data indicating effects are not yet available.) Further, the CPS data are only for employment and labor-force participation. Wage rates and wage distributions are not generally available. Finally, the amendment passed in September 1966 is empirically confounded by the federally sponsored youth-employment programs that began a year earlier.[3] Virtually all our evidence of minimum-wage effects has been gleaned from implications of erosion of the nominal minimum as labor productivity has grown between the steplike increases in the minimum.

In principle, much information can be gained by focusing on the implications of uneven industrial coverage, but few studies have ac-

[2]For a recent analysis of effects of state minima, see Katz (1973).

[3]The Neighborhood Youth Corps, which accounted for 10 percent of total teen-age employment in 1972, may be especially relevant.

knowledged incomplete coverage and, among those that have, attention has been restricted to aggregate effects; effects on the industrial distribution of employment have not been considered. Nonetheless, four studies of aggregate effects that I know of have explicitly introduced coverage in the empirical analysis, and all have found statistically significant evidence of the effect predicted by the straightforward theory, that minimum wages have reduced employment. In each of these studies, incomplete coverage is introduced only as an empirical correction of the minimum-wage variable, not as a distinct analytical phenomenon. Yet the central theme of Section II is that the analytical mode for determining effects on, say, total employment is completely different in a world with universal coverage than in one with partial coverage. The reasons are obvious. With full coverage, employment effects of wage floors are demand-determined in a competitive market. Supply is irrelevant, because there is excess supply at above-equilibrium wages. With partial coverage, employment is demand-determined only in the covered sector. As wages in that sector are constrained to above-equilibrium levels, jobs in that sector are rationed and supply increases in the uncovered sector. Employment in sectors not covered is then determined jointly by demand and supply.

What Does Theory Predict?

For persons who would have earned less than the minimum, legislated wage floors are at best a mixed blessing. There is the obvious potential to increase earnings, but there is the burden that these workers must find an employer who perceives their labor to be at least worth the legal minimum, find jobs in uncovered sectors where–owing to the legislation–wages will be depressed, or be unemployed. It is always true that workers have incentives to find jobs offering the greatest satisfaction. The fact that, without legislation, some earn less than the minimum is proof that either these workers are unable to find jobs paying as much as the minimum or, even if they are offered such jobs, they prefer others on consideration of chances for advancement, fringe benefits, or convenience. The rub is that, although wage laws can be established, productivity cannot be directly increased by legislative fiat.

In this section I consider implications of minimum-wage legislation as predicted by fairly conventional theory, under the assumption of full coverage only. The distinction between full and partial coverage is im-

portant for analyses of total employment, unemployment, and, of course, industrial distribution of employment. It is not important for analyses of cyclic stability of employment or for the classroom example of wage determination under monopsony.

We are concerned only with effective wage constraints, so that if a minimum wage exists the presumption is that in the absence of the minimum at least one worker would have earned a lower wage. In a competitive labor market, the implications of a minimum wage for at least some workers who would have earned less than the minimum are straightforward: Labor demand, i.e., hours of work, will fall. This requires only the assumption that demand functions for productive inputs are negatively inclined, and they must be, for there are no Giffen producer goods.[4]

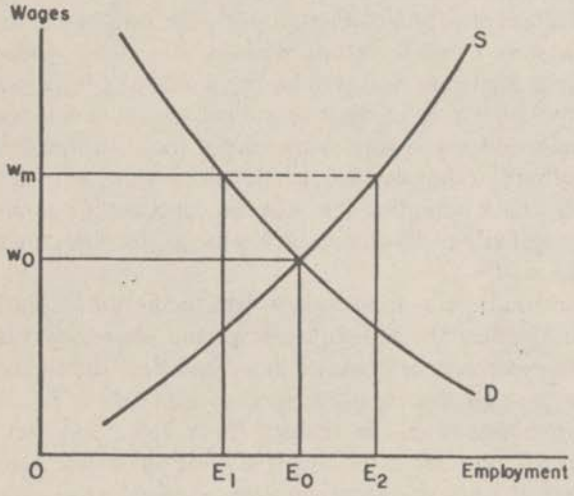
The standard classroom example is depicted by the Marshallian cross in Figure 1, where the equilibrium wage and employment levels that would otherwise exist are denoted as w_0 and E_0. The legislated wage floor is w_m; under this constraint, employment falls to E_1. This rarefied example tells us only two things: (1) If there is an effect, employment will fall, and (2) if the supply is positively inclined (as drawn), the number of workers who would choose to work at w_m, if jobs were available, would exceed employment. This simple description glosses over questions of fringe benefits, nonpecuniary attributes of jobs, and chances for on-the-job training. The latter are all substitutes for current wages and are restricted by legislated wage minima. More important, this simple model makes no prediction of the effects of minimum wages on unemployment.

Note that available statistical measures of unemployment include only those persons who do not have a job and are actively searching for one. The assumption underlying labor-supply functions like the one depicted in Figure 1 is that at a specified wage all choosing to work can find a job. When legislated minima exceed equilibrium wages, jobs are rationed: Not all who choose to work at the minimum wage will find jobs. In this situation, the extent of job search can be determined only by reference to probabilistic models which take into account chances of successful search. It is not the purpose of this paper to derive a

[4]Unlike consumption theory, in which income and substitution effects are contradictory for inferior goods, in production these effects are in the same direction.

FIGURE 1

An Illustration of Employment Effect for Wages Constrained to Exceed Equilibrium Level



model of job search under rationing. The purpose is only to point out that there is no simple relationship between excess supply at above-equilibrium wages as read from the Marshallian cross of Figure 1 and available measures of unemployment.

Because of the ambiguity of the standard model concerning effects of minimum wages on unemployment, it is surprising that the majority of empirical analyses of minimum-wage effects have focused on unemployment rather than on employment, where, at least for competitive labor markets, predictions are unambiguous. Empirical studies of effects of minimum wages on unemployment rates are not discussed here. In several cases, the specified model is inadequate for probabilistic inference. In others (especially Hashimoto and Mincer, 1970),[5] specifications are adequate but results are often inconclusive.

[5]Hashimoto and Mincer include an excellent discussion of probabilistic phenomena, but their specification does not allow for interaction between turnover and job-vacancy rates and the minimum. One would expect that, with the existence of a minimum, jobs that pay the minimum would be at a premium and turnover among those lucky enough to find jobs would be reduced.

The result that employment will fall if wage minima exceed equilibrium wages does not extend to all who would have earned less than the minimum. With a single legislated wage floor, it is clear that the greatest proportionate increase in wages is imposed on those who, in the absence of legislation, would have earned the least. Barring correlations between demand elasticities and fractional wage increases, it follows that effects on employment will be most adverse for those whose proportionate wage increase is greatest. For those who would have earned less, but not much less, than the minimum, effects on employment are uncertain. If all who would earn less than the minimum are substitutes, employers will substitute in favor of the workers whose relative costs have increased least, and these (indirect) effects may dominate. This is the assumption underlying the "ripple effect," which holds that labor demand increases for workers above the minimum, and the effect declines with distance from the minimum. For workers who would have been below the minimum, the converse holds and adverse-employment effects increase with distance from the minimum.

The necessary assumption for this monotone effect to hold is that all workers are substitutes and that the smaller the wage discrepancy that would have existed in the absence of legislation, the larger the degree of substitutability. In this case, it is possible that employment of some who would have earned less than the minimum will rise simply because, with the legislation, costs of employing them have fallen relative to others with lower wage potential.

Alongside this competitive model, there is the well-known classroom example of the monopsonist who, in maximizing profits, equates marginal factor cost with marginal factor revenue. Since he is a monopsonist, i.e., the market wage is presumed to be an increasing function of the quantity of labor he hires, marginal factor cost exceeds the wage rate. In principle, a legislated wage floor that lies *between* the existing wage rate and marginal factor cost will increase his employment of labor and his output. In an early article, Stigler (1946, pp. 360-361), in discussing employer wage determination, noted:

> If an employer has a significant degree of control over the wage rate he pays for a given quality of labor, a skillfully-set minimum wage may increase his employment and wage rate and, because the wage is brought closer to the value of the marginal product, at the same time increase aggregate output. . . . The minimum which achieves

these desirable ends has several requisites:

1. It must be chosen correctly: too high a wage will decrease employment. The accounting records describe, very imperfectly, existing employment and wages; the optimum wage can be set only if the demand and supply schedules are known over a considerable range. At present there is no tolerably accurate method of deriving these schedules, and one is entitled to doubt that a legislative mandate is all that is necessary to bring forth such a method.
2. The optimum wage varies with occupation (and, within an occupation, with the quality of worker).
3. The optimum wage varies among firms (and plants).
4. The optimum wage varies, often rapidly, through time.

A uniform national minimum wage, infrequently changed, is wholly unsuited to these diversities of conditions.

Stigler's comments surrounding the difficulty of determining an optimum wage floor are modified by the phrase, "If an employer has a significant degree of control over the wage rate he pays . . . ," i.e., if he is a monopsonist. As far as I know, we have no evidence of the extent of this phenomenon, but there is the clear impression that in this economy the number of workers employed under situations in which their employer accounts for an appreciable share of employment in a given market is small, as employment in monopsonistic markets is viewed relative to aggregate employment.

What Do the Data Show?

Teen-age employment. There are by now many studies of the effects of minimum wages on either employment or unemployment rates. I report the results of only two, which consider effects on the employed fraction of persons in age-based demographic groups. These studies are the paper by Kaitz (1970), which constitutes the major empirical part of the study on youth employment conducted within the U.S. Department of Labor, and the paper by Hashimoto and Mincer (1970).

The important feature of the Kaitz and Hashimoto-Mincer studies is that they explicitly recognize incomplete coverage and introduce a correction for it into the empirical measure of the minimum wage. This is in sharp contrast to the majority of studies, which simply ignore partial coverage, even though the fraction of teenagers working in

covered firms before the 1961 amendments was surely less than half of all employed teenagers.[6]

The variable used for the minimum wage is the same in both studies—the ratio of the minimum to an industrial average wage, multiplied (i.e., weighted) by the coverage rate. This variable combines the impacts of coverage and minimum-wage level in a simple and intuitively appealing way. The key assumptions underlying its construction are (1) that, in the absence of a legislated minimum, the relative wage of persons earning less than the minimum would be a constant fraction of the industrial average wage, and (2) that the wages of persons in uncovered sectors are unaffected by the minimum. The first assumption seems reasonable, but, if the legislation shifts workers from covered to uncovered sectors, the second assumption does not. In any case, the constructed wage variable is likely to be highly correlated with a true index of changes in cost of workers who otherwise would earn less than the minimum and is a marked improvement over indexes that ignore partial coverage.

In the Kaitz study, the employed proportion of teenagers is regressed upon the minimum-wage variable, the adult male unemployment rate, the fraction of males 16 to 19 years old who are in the armed forces, the ratio of agricultural employment to the white 16-to-19-year-old population, the school-enrollment ratio for each teenage group, the ratio of the teenage to the adult population for each group, and dummy variables for each of the final four years of the data. Observations are quarterly for the 1954–68 period. The dummy variables for the final years are introduced for federally sponsored youth employment programs (principally, the Neighborhood Youth Corps), since teenagers in these programs are counted as employed.

In separate regressions by sex (male; female), age (16–17; 18–19), and race (white; Negroes and other races), statistically significant disemployment effects were found for teen-age white males and for white females 16 to 17 years old. No minimum-wage effects were found for any of the groups considered among Negroes and other races. When all persons 16 to 19 years old were combined, there was "statistically

[6] An important exception is the paper by Moore (1971). Even though this study was published after the one by the Department of Labor, I believe it was the first to incorporate coverage data in an empirical analysis.

significant" evidence of teen-age employment reductions associated with increments in either coverage or the minimum-wage level.

The Hashimoto-Mincer study is similar in design to the Kaitz work. The data are the same except that the Hashimoto-Mincer observations extend through one additional year, 1969. In this study, employed fractions of group population are regressed upon minimum-wage variables, adult male unemployment rates, quarterly dummy variables, and a quadratic trend component. The minimum-wage variables form a distributed lag over a two-year period, with lag parameters conforming to an Almon-quadratic.[7]

Separate regressions are calculated for teenagers (16–19, white; 16–19 nonwhite), white and nonwhite males (20–24; 25–64; 65+), and females (20+). Statistically significant disemployment effects were found for white teenagers, for males 20 to 24 (white and nonwhite, separately), for white males 65 and over and for white females 20 and over.

It is surprising that neither study found consistent disemployment effects for nonwhites when the data were separated by color, even though the theory predicts that adverse effects should be most extreme for persons who, in the absence of the legislation, would earn the lowest wage. My own impression is that the problem of statistical significance lies in sampling errors in the data. For example, in May 1973, the CPS household survey reports employment of males 16 to 19 years old in the Negroes-and-other-races group as 339,000, with a standard error of this estimate reported at between 17,000 and 25,000 [*Employment and Earning Statistics*, 19 (June 1973)]. From this and and the implied serial correlation in reported employment standard errors for month-to-month changes, I infer that a quarter-to-quarter change of between 6.2 and 9.1 percent lies within 2 standard errors of no change at all.[8] At the same time, employment of white teen-age (16–19) males was 3,451,000, with sampling standard errors of between

[7]The cumulative wage effect is described as $\Sigma_{i=0}^{7} b_i X_{t-i}$, where X_{t-i} is the minimum-wage variable in the ith period and $b_i = a_0 + a_1 i + a_2 i^2$.

[8]The implied serial-correlation coefficient that reconciles error variance for monthly employment levels with reported errors in month-to-month change is $p = 0.68$. Assuming a first-order Markov process with the correlation between variables n months apart being p^n, the implied error variance for quarter-to-quarter changes is 0.378 of monthly variance (the quarter is the simple average of three consecutive months).

75,000 and 90,000. This translates into a proportionate 2-standard-error range of 2.7 to 3.2 percent for quarterly changes. Clearly, reasonably subtle effects can be more precisely identified with data from the larger white sample.

Employment stability. Another straightforward prediction of minimum wages is that, for persons whose wages would otherwise be near the minimum, cyclical variations in labor demand result in exaggerated variations in employment. The rationale is simple. To a profit-maximizing competitive firm, a rigorously enforced minimum-wage law is quite simply a law that excludes hiring persons with productivity below the legislated floor. Consider two workers, one with average productivity of $1 per hour, the other with productivity of $2 per hour. Suppose that in an expansionary business phase labor's product is 10 percent higher than in a recession, so that the low productivity worker's offered wages would be $1.05 and $0.95 in respective phases of the business cycle and the high-productivity worker's wages would be $2.10 and $1.90. A $1 minimum wage rules out employment of the low-productivity worker during recessions.

Empirical analysis is confounded by several interrelated phenomena, but the central idea is unchanged: Minimum-wage legislation exacerbates cyclic employment instability for low-wage workers. In a study of these effects, Kosters and I (1972) found strong evidence that minimum wages had heightened the vulnerability of teen-age employment to cyclic vagaries.[9] We estimated that, even without wage legislation, teenagers would be peculiarly affected by swings in aggregate employment. On average, over the period of our observations, 1954–68, teenagers 16 to 19 years old accounted for 6.3 percent of employment, but when total employment varied about its longer-term trend, teenagers accounted for 22 percent of cyclic-related variance. The role of minimum wages was to shift the composition of normal employment, increasing shares for adults, particularly white adults, and reducing teen-age shares. Symmetrically, shares of transitional employment—that part vulnerable to swings in the level of economic activity—were reduced for adults (again, white adults) and increased for teenagers.

[9]The minimum-wage variable used in this study is analytically equivalent to the one used by Kaitz (1970) and Hashimoto and Mincer (1970). It is the aggregate coverage rate multiplied by the ratio of the nominal minimum to the average manufacturing wage.

Among teenagers, the effects were more adverse for nonwhites and for females. The ratio of a group's share of transitional to its share of normal employment is taken as an index of vulnerability to business cycles. In fact, this measure corresponds to the percent change in group employment associated with a 1 percent deviation in aggregate employment from its trend. We estimated this ratio to be less than unity for adult groups except nonwhite males and to exceed unity for all teen-age groups. Our estimate is that changes in minimum-wage legislation, especially increased coverage, during the 1954–68 period more than doubled this index of cyclic vulnerability for all four teen-age groups (male-female; white-nonwhite).

II. INCOMPLETE COVERAGE

Earlier, I noted that the history of minimum-wage legislation has been that of periodic updating of the minimum to maintain its level relative to wage rates above the minimum. Further, coverage has been extended progressively toward industrial sectors with larger proportions of low-wage workers. In this section, I consider analytical issues surrounding incomplete coverage. Estimates are provided of the effects of both minimum wages on the aggregate teen-age/adult employment ratio and uneven coverage on the industrial distribution of teen-age employment.

Table 3 demonstrates changes in the industrial distribution of teen-age employment by contrasting the 1930 and 1940 data, years before and after the initial 1938 legislation. The data reported are teen-age shares of employment and the 1940/1930 ratio of these shares in each industry relative to the U.S. aggregate ratio. Panel A gives data for all teenagers 14 to 19 years, panel B includes only those 18 to 19, and panel C refers to those 14 to 17. For comparative purposes, changes in teen-age shares are matched with industrial coverage rates.

There are numerous problems associated with this comparison. First, the economy was more depressed in 1940 than in 1930 and the effects of recession are greater for teen-age than for adult employment. Second, unionism spread rapidly throughout the 1930s, and the industries most affected were the ones with greater proportions of workers in firms covered by the Fair Labor Standards Act. Finally, the 1938

legislation contained provisions other than the minimum wage. Employment of persons 10 to 13 years old was essentially precluded, and employment of persons 14 and 15 was restricted. In occupations deemed "hazardous" by the Secretary of Labor, employment was restricted to ages 18 and above. Thus, it is not surprising that the teen-age (14–19) share of total employment fell from 9.2 to 5.9 percent between 1930 and 1940. And, given this 36 percent reduction in the teen-age share of employment, it may not be surprising that the greatest proportionate reductions occurred in industries with above-average coverage. Nonethless, teen-agers 18 and 19 years old were not affected by age-based provisions of the legislation and yet they experienced the same pattern of changes in employment as did the teen-age aggregate: Without exception, the teen-age share of employment fell by more than the average in industries with minimum-wage coverage above the national average, and the teen-age share increased relative to the average in industries with below-average coverage.

Consider now the purely theoretical implications of minimum-wage legislation with incomplete coverage distributed unevenly among industries. At the outset, note that so long as coverage is not selective in the sense that coverage rates are not correlated with factor ratios, the effects of the legislation are generally similar qualitatively but different quantitatively from effects with complete coverage. The main distinction is that, for workers displaced from covered sectors, there are residual employment opportunities in the uncovered sector. Thus, instead of distributional effects between workers securing wage increments and those losing jobs, effects are between those securing wage increments in covered sectors and those either withdrawing from the work force or securing jobs at reduced wages in the uncovered sector.

If coverage is correlated with factor ratios, the analytical structure changes. As an example, consider a two-sector general-equilibrium model with two inputs of fixed supply. Assume that production functions are linearly homogeneous and that factor intensities differ between sectors. Call the inputs capital and labor. Suppose that a minimum wage is imposed on one sector If the wage restraint is imposed on the labor-intensive sector, the first-order effects are unambiguous: Labor use in the covered sector will fall. If the substitution effect (substituting capital for labor in the covered sector) dominates the production effect, capital will flow from the uncovered to the covered

TABLE 3

Minimum-Wage Coverage and Changes in Teen-Age Shares of Industrial Employment between 1930 and 1940 [1]

Industry	*Teenagers as a Percentage of All Employed Persons 14 or Over*		*Change in Teen-Age Share (1940/1930) Relative to National Average*	*Coverage: Percentage of Workers in Covered Firms in 1940*
	1930	*1940*		
	A. All Teenagers (14–19 Years)			
Industries with coverage above national average:				
Mining	5.3	2.3	0.66	99
Manufacturing	9.6	4.8	0.78	95
Transportation and communication	5.5	2.1	0.78	88
Finance, insurance, and real estate	7.1	2.9	0.64	74
Industries with coverage below national average:				
Construction	3.2	2.5	1.19	44
Services	7.5	6.0	1.23	19
Wholesale and retail trade	8.8	6.0	1.05	13
Agriculture, forestry, and fishing	14.2	10.6	1.16	...
Governments	3.2	3.4	1.63	...
Miscellaneous	11.2	10.5	1.45	...
United States total	9.2	5.9	1.00	56
	B. Teenagers 18–19 Years			
Industries with coverage above national average;				
Mining	3.9	2.0	0.67	99
Manufacturing	6.1	3.8	0.82	95
Transportation and communications	4.0	1.8	0.58	88
Finance, insurance, and real estate	5.6	2.7	0.62	74
Industries with coverage below national average:				
Construction	2.4	2.0	1.08	44
Services	4.9	4.3	1.15	19
Wholesale and retail trade	5.5	4.5	1.07	13

TABLE 3 (*continued*)

Industry	*Teenagers as a Percentage of All Employed Persons 14 or Over*		*Change in Teen-Age Share (1940/1930) Relative to National Average*	*Coverage: Percentage of Workers in Covered Firms in 1940*
	1930	*1940*		
Agriculture, forestry, and fishing	5.7	5.2	1.19	...
Governments	2.8	3.3	1.54	...
Miscellaneous	7.6	6.8	1.17	...
United States total	5.2	4.0	1.00	56
	C. Teenagers 14-17 Years			
Industries with coverage above national average:				
Mining	1.5	0.3	0.41	99
Manufacturing	3.5	1.0	0.58	95
Transportation and communication	1.5	0.4	0.53	88
Finance, insurance, and real estate	1.5	0.3	0.35	74
Industries with coverage below national average:				
Construction	0.8	0.5	1.24	44
Services	2.6	1.7	1.29	19
Wholesale and retail trade	3.3	1.5	0.89	13
Agriculture, forestry, and fishing	8.5	5.4	1.31	...
Governments	0.4	0.1	0.51	...
Miscellaneous	3.6	3.7	2.10	...
United States total	3.9	1.9	1.00	56

Notes: Data for 1930 include persons 10 to 13 years in the industrial distribution of teen-age employment. For U.S. aggregate, persons 10 to 13 employed accounted for 5 percent of all teen-age employment. This average is assumed for all industries. There are a number of inconsistencies in the 1930 data. For example, the "U.S. Summary" indicates that teenagers 14 to 19 years account for 11.8 percent of all employment 14 and over. Yet, the aggregated industrial data show employment of persons 10 to 19 years as 9.6 percent of total employment, 10 years and over.

Source: U.S. Census of Population, for 1930 and 1940. Data for 1930 are from Vol. V, *General Report on Occupations,* and 1940 data from Vol. III, *The Labor Force,* Part 1, "U.S. Summary."

sector and labor will flow from the covered to the uncovered sector. The reduced capital/labor ratio in the uncovered sector will lower the productivity of labor in that sector, and the wage will fall. If the production effect[10] dominates the substitution effect in the covered sector, the results are qualitatively the same: In either case, the capital/labor ratio, and therefore wages, will fall in the uncovered sector. Laborers in the covered sector gain at the expense of laborers in the uncovered sector. If substitution effects in the covered sector outweigh production effects, owners of capital also gain.

On the other hand, if the minimum wage is imposed only on the capital-intensive sector, effects are ambiguous, since production and substitution effects are contradictory. If production effects prevail, so that the ratio of capital to labor displaced in the covered sector exceeds the capital/labor ratio in the uncovered sector, the marginal productivity of labor will rise in both sectors and the gain to labor will be at the expense of capital.

In general, when coverage is correlated with factor ratios, the distributional effects of minimum wages are uncertain. Winners are undoubtedly those who, in the absence of a minimum, earn wages below the minimum and are able to secure jobs at the higher wage. Losers are other laborers or owners of capital or both.

Consider now, in greater detail, the case in which the incidence of coverage is independent of factor ratios. In fact, the simplifying assumption is made that all sectors have the same factor ratios (in the absence of minimum-wage legislation) and the same structure of input demand. The analysis is further restricted to competitive markets.

For analyzing total effects of employment of a single class of workers or for analyzing the cross-effect on the demand for one group with respect to legislated wage increments for another group, only average wages are relevant. That the change in the average wage consists of two parts, an increase in the covered sector and a decrease in the uncovered sector, is relevant only for distributional questions. Consider the aggregate quantity of an input demanded as the sum of the quantities demanded in the covered and uncovered sectors:

$$D_j = D_{cj} + D_{uj}, \tag{1}$$

[10]The legislatively imposed cost increase in the covered sector will result in reduced output and a proportionate reduction in demand for both labor and capital.

where D denotes demand. The subscript j refers to an input, with c and u indicating the covered and uncovered sectors. Suppose that, in the absence of legislation, $D_{cj}/D_j = c$ (for all j), where c is the proportion of each input used in the covered sector. Suppose also that

$$\eta_{ji} = (w_i/D_j)(\partial D_j/\partial w_i) = (w_i/D_{cj})(\partial D_{cj}/\partial w_i) = (w_i/D_{uj})(\partial D_{uj}/\partial w_i), \tag{2}$$

i.e., that demand elasticities are the same in the covered and uncovered sectors and are therefore equal to the aggregate elasticities.

A legislated wage increment for some workers (the ith class) in the covered sector will, as a first-order effect, result in a portion of workers being displaced to seek employment in uncovered sectors, and there will be an equilibrating wage movement in the uncovered sector. Although the nature of the wage change in the uncovered sector is the subject of much of the ensuing discussion, assume temporarily that, for the ith class of workers, a legislated increment of $100\tilde{w}_i$ percent in the covered sector is associated with an equilibrating change of $100\ \dot{w}_i$ percent in the uncovered sector. The proportional change in demand for the jth input following this legislation is

$$\begin{aligned} dD_j/D_j &= (D_{cj}/D_j)(\eta_{ji}\tilde{w}_i) + (D_{uj}/D_j)(\eta_{ji}\dot{w}_i) \\ &\qquad \text{all wages other than } w_i \text{ being constant} \\ &= \eta_{ji}\,[c\tilde{w}_i + (1-c)\,\dot{w}_i] \\ &= \eta_{ji}\,\dot{\bar{w}}_i, \end{aligned} \tag{3}$$

where $\dot{\bar{w}}_i = c\tilde{w}_i + (1-c)\dot{w}_i$ is the proportional change in the average wage of workers in class i.

The question of the equilibrating wage adjustment in the uncovered sector is central to analysis of either total effects on demand for a class of workers or the distribution of this effect between covered and uncovered sectors. Unfortunately, there is no simple solution, for it involves the simultaneous solution of a system of equations representing adjustments in employment of each of the inputs. There is an alternative, however, which is sufficient for determining first-order magnitudes so that an intuitive notion of the nature of the solution can be obtained. Equation (3) provides the basis for this approximation. Notice that, at the market aggregate, cross-demand effects depend upon the movement

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in the average wage, $\dot{\bar{w}}_i$. By solving for $\dot{\bar{w}}_i$ *as though* all other wages remain constant, we derive a measure of the resulting pressure for equilibrating movement via interactions between demand functions and associated supply responses. In the simplest case, if $\dot{w}_i = -(c/1-c)\,\dot{\bar{w}}_i$, $\dot{\bar{w}}_i = 0$ and there are no net effects on demand for input j stemming from wage movement in class i.

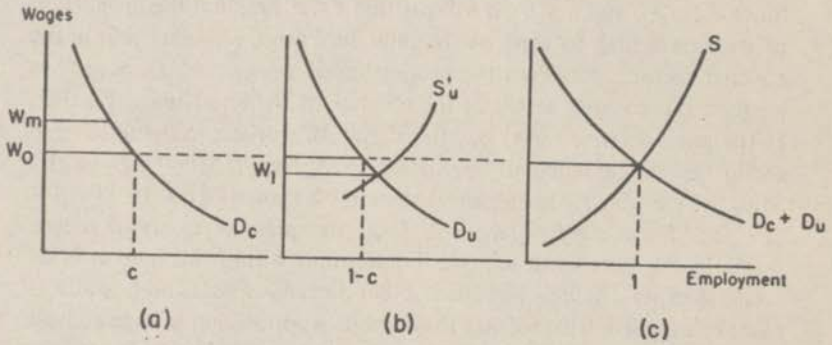
Briefly stated, the movement, $\dot{w}_i$, can be considered as consisting of two parts. The first refers to the adjustment within class i and can be obtained simply as the solution to two equations, demand and supply within the market for class i workers. The second refers to the demand interactions between input markets and is obtained from a more complex system. But this second effect is derivative of the first, so that by solving only for the first effect, we can at least get an impression of the nature of the full solution.

The solution for the first effect is not as simple as might appear at first blush. The difficulty stems from the necessity of determining which workers obtain jobs in the covered sector. Consider Figure 2, which denotes demand in the covered and uncovered sectors, parts (a) and (b) respectively, together with the combined market and its equilibrium, part (c), in the absence of minimum-wage legislation. As drawn, the initial equilibrium wage is w_0, and proportion c of employed labor works in the covered sector. Legislation increases the wage in the covered sector to w_m $[\tilde{w} = (w_m - w_0)/w_0]$ and employment falls. Prior to the legislation, the supply of workers to the uncovered sector is aggregate supply less demand in the covered sector, i.e., $S_u = S - D_c$. But as workers are displaced from the covered sector with the imposition of the minimum wage, supply to the uncovered sector will increase. In Figure 2(b), the resultant supply to the uncovered sector is denoted as S'_u, with the associated equilibrium wage being w_1 $[\dot{w} = (w_1 - w_0)/w_0]$.

Clearly, determination of w_1 requires knowledge of the shift from S_u to S'_u. An economically efficient solution would be to distribute workers between the covered and uncovered sectors to maximize worker surplus, i.e., to award the premium jobs in the covered sector to workers having the lowest reservation wages. In this case, the residual supply to the uncovered sector is $S'_u = S - D_c(w_m)$. But this outcome would require that workers in the covered sector be premitted to bid for jobs by bribing others not to compete. In the dynamics of a labor

FIGURE 2

An Illustration of Effect of Minimum Wage with Incomplete Coverage



market with a steady stream of new entrants and withdrawals, such a solution seems unlikely.[11] Possibly the most reasonable and certainly the simplest assumption is that workers are randomly assigned between employment in the covered sector and either employment in the uncovered sector or withdrawal from the work force. Clearly, jobs in the covered sector are preferred to jobs in the uncovered sector. If everyone seeking a job at the wage w_m could find employment, then labor supply would be $S(w_m)$. But w_m prevails only in the covered sector and, at this wage, only $D_c(w_m)$ workers are employed. Assume then that each worker willing to work at w_m has probability $f = D_c(w_m)/S(w_m)$ of finding employment at that wage. Those not obtaining covered employment choose between work in the uncovered sector at lower wages and withdrawal from the market. In this case, the supply of workers to the uncovered sector is

$$S'_u = S(1 - f)\,. \tag{4}$$

[11] It may be tempting to assume that workers with lower reservation wages would implicitly bid higher prices by queueing longer for premium jobs, because they have more to gain. This argument is only partly correct. The gain associated with employment in the covered sector is $w_m - w_1$ (recall that w_1 is the wage in the uncovered sector) for all willing to work in the uncovered sector at wage w_1. For those with reservation wages above w_1, the gain from employment in the covered sector is less.

With $\epsilon = (w/S)(dS/dw)$ and $\eta = (w/D_c)(\partial D_c/\partial w)$,

$$f = c[(1 + \eta\tilde{w})/(1 + \epsilon\tilde{w})]. \quad (5)$$

Since $\tilde{w}; \epsilon > 0$ and $\eta < 0$, it follows that $f < c$, i.e., that the proportion of workers willing to work at the minimum wage who find jobs in the covered sector is less than the proportion of workers who would have been in the covered sector in the absence of the legislation. Further, at the pre-legislative wage, w_0, the supply of workers to the uncovered sector in the absence of legislation is $S_u(w_0) = S(w_0) - D_c(w_0) = S(w_0)(1 - c)$, and with legislation, supply becomes $S'_u(w_0) = S(w_0) \times (1 - f)$. Since $c > f, S'_u(w_0) > S_u(w_0)$ and pressure exists to reduce wages in the uncovered sector. Equilibrium within this market is re-established via a falling wage as number demanded rises and possibly as number supplied falls, so that the combined adjustment is large enough to absorb the increased supply at w_0. At the new equilibrium wage, w_1, demand is given as $D_u(w_1) = D_u(w_0)(1 + \eta\dot{w})$, where, η, the elasticity of demand, is presumed to be the same as for the covered sector and $\dot{w} = (w_1 - w_0)/w_0$ is the proportionate wage reduction ($\dot{w} < 0$). At w_1, supply, $S'_u(w_1) = S(w_0)(1 + \epsilon\dot{w})(1 - f)$. Equating the sum of the supply and demand movements associated with a $\dot{w}$ proportional wage reduction with the supply shift induced by the legislated $\tilde{w}$ wage increase gives

$$\dot{w} = -c\tilde{w}/[(1 - c) + \epsilon\tilde{w}] \quad (6)$$

as the equilibrating wage movement. The proportional effect on the mean wage is

$$\dot{\bar{w}} = c\tilde{w} + (1 - c)\dot{w} = c\epsilon\tilde{w}^2/[(1 - c) + \epsilon\tilde{w}]. \quad (7)$$

Several points are relevant. First, the equilibrating wage movement is independent of the elasticity of demand because of the presumption of equality in the covered and uncovered sectors. The more elastic is demand, the greater is the displacement of workers from covered to uncovered sectors but the more easily are these workers absorbed in the uncovered sector as wages fall. Second, so long as $\epsilon > 0$, i.e., so long as the supply function is positively inclined, the average wage of those continuing to work following the legislation must rise. Of course, wages will fall in the uncovered sector, but the increase in the covered sector

will dominate *so long as some labor-force withdrawal* accompanies downward wage pressure.

If supply does not respond to wage rates, $\epsilon = 0$, the average wage is unaffected, i.e., $\dot{\bar{w}} = 0$. In this case, the wage decline in the uncovered sector fully compensates the increase in the covered sector, i.e., $\dot{w} = -c\tilde{w}/(1 - c)$, and the legislation serves only as a tax from those working in the uncovered sector to those in the covered sector.

So long as $\dot{\bar{w}} \neq 0$, the effects described are exclusive of cross-effects, but it is doubtful that the cross-effects will substantially change qualitative conclusions.

Aggregate Employment of Teenagers

In this section, the effect of minimum-wage legislation on teenage relative to adult employment is explored under assumptions contained in the earlier sections, namely, the structure of demand for labor is the same in the covered and uncovered sectors.

Consider two classes of workers. In the absence of minimum-wage legislation, workers in class 1 would earn less than the minimum and workers in class 2 would earn more than the minimum. Suppose that legislation increases the average wage of class 1 workers by 100 $\dot{\bar{w}}$ percent and does not affect the wage of workers in class 2. What are the employment effects of this change?

Assume, for simplicity, that the aggregate production process can be described as a two-stage function in which laborers in class 1 and class 2 are first aggregated into an intermediate input, labor, which is then combined with other inputs. Assume, further, that the intermediate labor-aggregation function is homothetic, so that, when the relative wage of class 1 to class 2 workers is held constant, the labor mix (the shares of the respective inputs) is independent of the total quantity of labor. In this case, the effects of changes in wage rates can be partitioned into a substitution effect within the labor aggregate and a scale effect between the labor aggregate, total output, and the use of nonlabor inputs. The assumed homothecity of the labor aggregate is an assumption that the scale effect is neutral with regard to the ratio of class 1 to class 2 laborers. That is,

$$dS_1/S_1 = k_1 \sigma_{11} \dot{\bar{w}} + \text{scale effects} \qquad (8a)$$

and

$$dS_2/S_2 = k_1 \sigma_{12} \dot{\tilde{w}} + \text{scale effects}, \tag{8b}$$

where S_i indicates quantity of class i workers demanded, k_i refers to the expenditure share, and σ_{ij} refers to the Allen-Uzawa partial elasticity of substitution *within* the labor aggregate. As noted earlier, $\dot{\tilde{w}}$ refers to the fractional change in the wage of class 1 workers (or, for these purposes what amounts to the same thing, the change in the relative wage of class 1 to class 2 workers). Since the scale effects are the same for the two types of labor, the proportionate effect on employment of class 1 relative to class 2 workers, is

$$(dS_1/S_1) - (dS_2/S_2) = k_1 (\sigma_{11} - \sigma_{12}) \dot{\tilde{w}} . \tag{9a}$$

But $k_1 \sigma_{11} + k_2 \sigma_{12} = 0$, so that $\sigma_{11} = -k_2 \sigma_{12}/k_1$; $\sigma_{11} - \sigma_{12} = -\sigma_{12} \times [(k_1 + k_2)/k_1]$; and

$$(dS_1/S_1) - (dS_2/S_2) = -\sigma_{12} \dot{\tilde{w}} . \tag{9b}$$

If $\dot{\tilde{w}}$ were known, equation (9b) could be estimated. Here I have made two simplifying assumptions to obtain estimates of the effects of minimum wages on the teen-age/adult employment ratio. Recall from equation (7) that a first-order estimate of $\dot{\tilde{w}}$ is $\dot{\tilde{w}} = c\epsilon\tilde{w}^2/[(1 - c) + \epsilon\tilde{w}]$. While c, the coverage rate, is observed and fairly direct estimates of $\tilde{w}$ can be obtained, we do not have direct evidence of ϵ, the supply elasticity.

In the formulations of Hashimoto and Mincer (1970), Kaitz (1970), and Kosters and Welch (1972), the variable introduced for the "effective" minimum wage is the coverage rate multiplied by the minimum wage relative to the industrial average(s) wage. Observe that the average wage of class 1 workers is $\bar{w} = w_0$ in the absence of legislation and $\bar{w} = cw_m + (1 - c)w_1$ with the legislation, where w_0 is the wage that would otherwise exist, w_m is the minimum, and w_1 is the wage in the uncovered sector. If the supply of class 1 laborers were perfectly elastic, there would be no equilibrating wage movement in the uncovered sector. Workers displaced from the covered sector would withdraw from the labor force. In this case, the change in the average wage caused by the legislation would be only the change in the covered sector weighted by the coverage rate. If, in the absence of legislation, the wage of persons below the minimum would change in proportion to the industrial average(s), the variable commonly used would be appropriate.

Table 4 reports regression results for the effects of minimum wages

on the ratio of teen-age to adult employment.[12] Panel A refers to all teen-age employment and Panel B to teenagers 16 to 19 years old. Two alternative minimum-wage variables are used. The first, used in regression equation (1), is similar to the variable used in the studies by Hashimoto and Mincer, Kaitz, and Kosters and Welch. It is constructed on the assumption that wages in the uncovered sector are not affected by the legislation, i.e., that the supply of teen-age labor to the uncovered sector is perfectly elastic. Operationally, the minimum-wage variable is defined as $1 + c\tilde{w}$, where c is the average coverage rate in the private nonagricultural sector. (Between 1954 and 1968, the teen-age average coverage rate increased from 0.38 to 0.72.) The proportion by which the minimum wage exceeds the wage teenagers would otherwise earn, $\tilde{w}$, is calculated on the assumption that the average teen-age wage would be 29.4 percent of the average wage in manufacturing.[13]

Both the dependent variable and the minimum-wage variables are expressed in logarithms (base e), so that the regression coefficient can be read as an elasticity. In the earlier discussion, this parameter is (minus) the partial elasticity of substitution between teenagers and adults. But an important assumption of that model is that, in the absence of the minimum, no class 1 workers would earn more and no class 2 workers would earn less than the minimum. It is likely that a larger proportion of teenagers than adults would otherwise earn less than the minimum, but surely both productivity distributions intersect the minimum wage. In this case, the employment elasticity of the minimum wage understates (in absolute value) the substitution elasticity, and the degree of understatement is greater the greater is the commonality in the productivity-density functions of teenagers and adults.

[12]The estimates reported in Table 4 are different from those reported in the version of this paper published in *Economic Inquiry*. As Suskind (1976) has pointed out, in the earlier version I used unpublished data for aggregate teen-age employment in which persons 14 to 15 years old were inadvertently deleted after 1966 but not before. Corrections of those data show no aggregate effects of minimum wages.

[13]This number, 0.294, is selected on the assumption that so long as the "guesstimated" teen-age wage did not exceed the minimum, a fairly wide range of such variables would be empirically equivalent. The 0.294 is in fact the lowest ratio of the minimum to the average manufacturing wage achieved since the 1938 Fair Labor Standards Act. This ratio was realized in 1945, when the minimum was \$0.30 and the manufacturing wage was \$1.02. During 1945, the minimum was increased to \$0.40 by provision of the original legislation, so that the 0.294 assumed relative wage is prior to this adjustment.

TABLE 4

Regression Estimates of Minimum-wage Effects on Teen-age Employment, 1954–68
(*Standard errors in parentheses*)

Independent Variable	*Regression Equation* (1)	(2)
A. Teenager 14–19 years old:[a]		
Minimum wage	−0.106	−0.087
	(0.098)	(0.100)
Adult unemployment rate	−3.092	−3.050
	(0.518)	(0.521)
Annual growth rate	0.020	0.019
	(0.002)	(0.002)
Quarter:		
1	−0.086	−0.086
	(0.014)	(0.014)
2	0.083	0.083
	(0.014)	(0.014)
3	0.251	0.251
	(0.014)	(0.014)
Constant	−2.539	−2.551
R^2	0.956	0.956
B. Teenager 16–19 years old:		
Minimum wage	−0.237	−0.198
	(0.107)	(0.110)
Adult unemployment rate	−4.344	−4.256
	(0.567)	(0.576)
Annual growth rate	0.021	0.020
	(0.002)	(0.002)
Quarter:		
1	−0.079	−0.079
	(0.015)	(0.015)
2	0.046	0.046
	(0.015)	(0.015)
3	0.211	0.211
	(0.015)	(0.015)
Constant	−2.653	−2.680
R^2	0.941	0.940

[a]Employment Data, 1954–59, from "Monthly Report on the Labor Force," *Current Population Reports Series P-57.* Data for 1954–68 from *Employment and Earnings,* issued monthly by the U.S. Department of Labor, Bureau of Labor Statistics.

In Table 4, for the aggregate of all employed teenagers (Panel A), although point estimates are that an increased minimum wage reduces teen-age relative to adult employment, the associated sampling errors suggest that these effects are not significantly different from zero. In contrast, estimates for teenagers 16 to 19 (Panel B) are not only of a statistically significant effect but the point estimates suggest that the numerical magnitude is larger when those 14 to 15 are omitted than when they are included. There are only two possible interpretations of such an anomalous result. One is that increased minima increase employment of the youngest teenagers. The other is simply that the CPS employment data for 14- to 15-year-olds are unreliable. Since virtually any model of effects would predict that employment of those 14 to 15 would fall relative to those 16 to 19, I prefer the second interpretation. For this reason, my comments are restricted to Panel B—employment of teenagers 16 to 19 years old.[14]

In equation (1) in Table 4, the point estimate is that a 1 percent increment in the effective minimum will reduce the teen-age/adult employment ratio by 0.24 percent. The coefficient estimate on the adult unemployment rate (expressed here as a proportion with 1954–68 mean of 0.04) indicates the well-known phenomenon that teenagers are more than proportionately vulnerable to employment savings. The (log linear) trend estimate is that the teen-age/adult employment ratio is rising at an annual rate of 2 percent, independently of minimum-wage legislation. In alternative specifications, the teen-age share of total population was used in lieu of this trend variable and the two were found to be operationally equivalent.

The employment data are not seasonally adjusted, so dummy variables are introduced for calendar quarters, with the omitted quarter being the fourth in each year. The estimate is that, as compared with fourth quarters, the teen-age/adult employment ratio falls (approximately) 8 percent in the winter, rises 4 to 5 percent in the spring, and rises 20 percent in the summer.

Alternative specifications were also considered that included variables (the school-enrollment rate, the proportion of the 16- to 19-year-old population enrolled in federal youth-employment programs, and the proportion of this population in the armed forces) which are potentially

[14] Estimates from the 1970 Census suggest that wage earnings of those 14 to 15 account for only about 7 percent of the total earnings of those 14 to 19.

simultaneously determined with civilian teen-age employment. Although point estimates of these effects may be of some interest, they obviously confound interpretation of minimum-wage effects and are not reported. Point estimates of the minimum-wage effect are somewhat sensitive to inclusion of these variables, but inferences of statistical significance are not.

Regression equation (2) is equivalent to equation (1), except that the minimum-wage variable is defined differently. In equation (1), the assumption is that the supply of teenagers to the uncovered sector is unaffected by minimum-wage legislation. In equation (2), the assumption is that the teen-age labor-supply function has unit elasticity Accordingly, the minimum-wage variable is defined as $1 + c\tilde{w}^2/[(1 \quad c) + \tilde{w}]$. Parameter estimates in equation (1) are essentially identical to those of equation (2). This is not surprising, since the alternative constructs are very highly correlated. For these data, the estimated historic effects of minimum-wage legislation are insensitive to changes in the supply elasticity as it varies between an assumption of perfectly elastic supply and unit elasticity.

This does not say that predicted effects of legislative changes are invariant to specification. Clearly, the alternative constructs can imply different changes in the average cost of teen-age labor as alternative variations in coverage and the minimum-wage level are considered; presumably, the more valid construct will yield more accurate predictions. It does say, however, that the historical experiment that the "real world" has conducted—at least as summarized in these regressions—is not capable of distinguishing among aggregate effects that depend on information of teen-age supplies to the uncovered sector.

The Industrial Distribution of Teen-Age Employment

As evidenced in Table 3, the impact of minimum wages has varied among industries as coverage rates have varied. For example, in 1930, 42 percent of all employed teenagers 14 to 17 years old worked in manufacturing establishments. By 1940, following the initial legislation, only 26 percent of this group were employed in manufacturing, and by 1955 this number had fallen to 17 percent. Approximately 95 percent of all manufacturing employees were covered by the initial legislation. In wholesale and retail trade, where the initial coverage rate was only 13 percent, the proportion of employed teenagers 14 to 17 years old increased from 21 percent in 1930 to 28 percent in 1940,

and to 45 percent in 1955. The experience of the service sector, with coverage of 19 percent, is similar; the share of 14- to 17-year-old employment rose from 22 to 36 percent between 1930 and 1940, and then fell slightly to 33 percent in 1955. The same pattern holds for employment of persons 18 to 19 years old, but the changes are less exaggerated:

Industry	*Percent of Teenagers (18–19) Employed*		
	1930	*1940*	*1955*
Manufacturing	39	30	28
Wholesale and retail trade	18	26	31
Services	22	28	22

Source: U.S. Census of Population, for 1930 and 1940. The 1955 data are for April from the CPS. They are unpublished, but were obtained privately from the U.S. Department of Labor, Bureau of Labor Statistics.

In this section, regression results are presented for the effects of minimum wages upon the industrial distribution of teen-age employment. The data used are from the Current Population Surveys of Households, which began in 1954. This "late start" is unfortunate, because the most dramatic changes followed the initial legislation. The model is the same as that underlying equation (9b) above, $(dS_1/S_1) - (dS_2/S_2) = -\sigma_{12}\dot{\bar{w}}$. The distinction is that the employment ratio, S_1/S_2, is specific to the industry, as is the substitution elasticity and the wage change. In this version, the assumption is made that the aggregate supply of teenagers is not responsive to wages ($\epsilon = 0$), so that the minimum wage serves a distributional function only. To mitigate this rather extreme assumption, the industry-specific teen-age/adult employment ratio is normalized by the aggregate ratio. Thus, in the regression analysis, the dependent variable for the ith industry is the ratio of the proportion of all employed teenagers who work in the industry to the proportion of employed adults in the industry.

Recall that, if supply is perfectly inelastic, in the aggregate $\dot{\bar{w}} = 0$ and $\dot{w} = \bar{c}\,\dot{\tilde{w}}/(1 - \bar{c})$, where $\bar{c}$ indicates the aggregate coverage rate. For the ith industry, the wage change $\dot{\bar{w}}_i = c_i\dot{\tilde{w}} + (1 - c_i)\,\dot{w} = [(c_i - \bar{c})\,\dot{\tilde{w}}]/(1 - \bar{c})$, where c_i is the industry-specific coverage rate. Here, $\dot{\bar{w}}_i$ is the change in the average wage within the industry *relative* to the national average

TABLE 5

(Seemingly Unrelated) Estimates of Effects of Minimum Wages on the Industrial Distribution of Teen-Age (14–19 Years Old) Employment in the Private, Nonagricultural Sector, 1954–68
(*Asymptotic standard errors in parentheses*)

	Industry[a]			
	Manufacturing	*Retail Trade*	*Services*	*Others*[b]
Proportion of teenagers in industry (1954–68 average)	0.198	0.335	0.308	0.159
Independent variables:				
Minimum wage	−0.370	−0.078	−0.004	0.380
	(0.089)	(0.028)	(0.035)	(0.139)
Adult unemployment rate	−3.696	−1.076	2.539	−0.069
	(0.598)	(0.471)	(0.428)	(0.643)
Annual growth rate	−0.014	0.003	0.014	−0.020
	(0.002)	(0.001)	(0.001)	(0.002)

[a]There are 60 quarterly observations and dummy variables for the quarters included.

[b]Includes mining, construction, wholesale trade, transportation, communication, finance, insurance, and real estate.

Source Data are unpublished and are obtained privately from the U.S. Department of Labor, Bureau of Labor Statistics.

change.[15] Estimates are reported in Table 5 for four industry aggregates. The manufacturing aggregate combines durable and nondurable manufacturing, because separate coverage data are not available. On average, for the 1954–68 interval, 20 percent of employed teenagers worked in manufacturing establishments. Retail trade and service industries are separately identified, because the majority of teenagers work in these industries (an average of 33.5 percent in retail trade and 30.8 percent in services). All other industries, which individually account for trivial proportions of teen-age employment, are combined, and regression results are presented here for comparative purposes.

[15]If the assumption $\epsilon = 0$ is relaxed, $\dot{w}_i = [(c_i - \bar{c})\,\tilde{w} + c_i\epsilon\tilde{w}^2]/[(1 - \bar{c}) + \epsilon\tilde{w}]$ and $\dot{\bar{w}}_i - \dot{\bar{w}} = [(c_i - \bar{c})\,\tilde{w}]/[(1 - \bar{c}) + \epsilon\tilde{w}]$, where $\dot{\bar{w}}$ is the average change over all industries. The limiting case ($\epsilon \longrightarrow \infty$) is obviously $\dot{\bar{w}}_i - \dot{\bar{w}} = (c_i - \bar{c})\,\tilde{w}$.

Estimation follows a two-step approximate generalized-least-squares (GLS) technique designed to give efficient estimates for cases such as this where residuals in the four industry-employment equations are obviously contemporaneously correlated. The first step involves ordinary least squares (OLS) of the individual equations from which the residual covariance matrix is calculated. The second step is the GLS technique based on this estimated contemporaneous-covariance structure of residuals.[16] Estimated effects have the "right sign" in manufacturing, retail trade, and services, but the sampling error for services is much larger than the coefficient estimate. The residual, other industries, shows perverse minimum-wage effects.

Both the dependent variable (the ratio of the proportion of employed teenagers to the proportion of employed adults working in the industry) and the minimum-wage variable are expressed in logarithmns (base e), so that the estimated coefficient is interpreted as an elasticity. Again, the coefficient estimate is not an estimate of substitution elasticities, because of commonality or overlap in the productivity distributions of teenagers and adults. Not surprisingly, industries employing the greatest teen-age proportions in their work force are also industries with the lowest average adult wage rates; in these industries, the productivity distinction between teenagers and adults is least important. The observation that the teen-age/adult employment ratio in service industries is less sensitive to minimum-wage changes than in manufacturing is not a statement that adults are more easily substituted for teenagers in manufacturing than in services. The observation instead is that the increased minimum wage has increased the cost of teenagers relative to adults in service industries less than in manufacturing because a larger fraction of adults in services have had a legislated wage increase.[17] Evidently, uneven industrial coverage had changed the industrial pattern of teen-age

[16] Residuals from OLS estimates show negative contemporaneous covariance between all industries.

[17] Suppose that there are only two skill classes of workers, who in the absence of legislation would earn, respectively, w_1 and w_2. A minimum wage, w_m, is instituted such that $w_1 < w_m < w_2$. The cost of group 1 will increase by $\tilde{w} = (w_m - w_1)/w_1$, relative to group 2 workers. Assume that in manufacturing all adults fall in group 2 and all teenagers fall in group 1. In services, assume that all teenagers fall in group 1 but that proportion p of adults falls in group 1 as well. The relative cost of teenagers to adults increases by $\tilde{w}$ in manufacturing and by $(1 - p)\,\tilde{w}$ in services.

employment. Prior to 1961, the effect was to shift teenagers from the more extensively covered sectors to retail trade and services. The coverage extensions in retail trade in 1961 and in both retail trade and services in 1967 shifted teenagers away from these industries.

Additional variables introduced in the regression equations reported in Table 5 are to control for non-neutrality. For example, the estimates are that secular forces (the time trend) are increasing relative teen-age shares in retail trade and services and reducing them in manufacturing and other industries. The significance of the adult unemployment rate indicates that, even though teenagers are more vulnerable than adults to fluctuations in employment, this effect is not uniform among industries. Increased adult unemployment results in a more-than-proportionate reduction in teen-age employment. Of those who remain employed, a disproportionate number are in services, while relative shares are reduced in other industries. Quarterly dummy variables are also introduced in these regressions to allow for industrial differences in seasonal patterns. Although coefficient estimates are not reported in Table 5, the evidence is that the summer influx of teenagers is disproportionately directed to services and to the aggregate of other industries.

III. SUMMARY AND UNSETTLED ISSUES

The available empirical evidence refers almost exclusively to teenagers and can be summarized as follows:

1. Minimum-wage legislation has reduced employment. The extent of this reduction remains conjectural because a variety of estimates are available. In the period since teen-age employment data became available in 1954, minimum wages probably had their least effect just prior to the 1956 increase from $0.75 to $1.00 per hour, when the minimum was 38.5 percent of the manufacturing wage, and only 38 percent of teenagers worked in covered establishments. The greatest cumulative effect would have accompanied the 1968 increase to $1.60 per hour, by which time coverage had been raised to 72 percent of the teen-age work force.

2. Minimum-wage legislation has heightened the vulnerability of teen-age employment to the vagaries of the business cycle. On balance, over the 1954–68 period, teenagers accounted for 6 percent of employ-

ment, but, as employment varied about its trend, teenagers accounted for 22 percent of this variation. The evidence is that a substantial part of the discrepancy between 22 and 6 percent is attributable to minimum wages.

3. Minimum wages have had very large effects on the industrial distribution of teen-age employment. The change between 1930 and 1940, when teen-age employment shifted to uncovered sectors, held through the 1945 and 1950 legislated adjustments, when—under constant coverage—the minimum was first raised to 39 and then to 52 percent of the manufacturing wage. The regression estimates of Table 5 offer evidence that, throughout the 1954–68 period, the industrial distribution of employment remained sensitive to uneven industrial coverage.

In addition to these effects on the level of teen-age employment and its pattern of change over the business cycle and between industries, Hashimoto and Mincer (1970) report significant disemployment effects for nonwhite workers 20 to 24 years old and for workers above 65 years of age. Other empirical accounts of minimum-wage effects have not addressed these groups but have focused on teenagers, for whom the data are more easily obtained. For teenagers, the evidence of substantial employment effects is convincing, yet many questions of equity and efficiency remain unanswered. What is the effect of minimum-wage legislation on school attendance? Should legislated minima vary by industry and by demographic group? Can wage and income policy be integrated to mitigate adverse effects?

School Enrollment and Part-Time Work

One argument favoring minimum-wage legislation is that, although a major share of the adverse employment effect falls upon teenagers, they have a good alternative use for their time. School attendance has offered and apparently continues to offer an attractive substitute to employment for the young. I know of no empirical study of the effect of minimum-wage legislation on school enrollment, however. Such a study, focusing especially upon traditionally economically disadvantaged demographic groups, would be an important addition to our arsenal of knowledge of these effects.

Unlike employment, the a priori effects are not unambiguous, because of the role of part-time work in financing education. The traditionally

disadvantaged are precisely the groups whose employment is most threatened by minimum-wage legislation, and they may well be the groups most dependent on part-time work for support while in school.

In a recently completed paper, Parsons (1973) offers important new evidence on this score. Reporting estimates based on the National Longitudinal Surveys, Parsons notes that students working part-time earn sharply lower wages (about 25 percent lower) than their contemporaries who have dropped out of school for full-time employment. The $1.60 minimum wage became effective in February 1968. Using earnings data for 1967 with Parson's estimates, my calculations are that an enrolled student working part-time would be in his fourteenth year of school (the second year of college) before his hourly wage would average $1.60. But a dropout would need only eleven years of schooling to earn $1.60 in his first year of employment. When employment of persons whose part-time wages fall short of the minimum is prevented, the student is confronted with a choice. He can continue in school if support from alternative sources is forthcoming, or he can leave school to work full time. The dependence between this choice and family income is obvious. It may be that minimum wages increase school enrollment, but the same legislation may force some to opt for full-time work; those who do so are likely to be those whose families can afford the least support for their children's education. This is an empirical question that can be addressed with available data.

Distributional Effects and Meshing Wage Policy with Incomes Policy

Among policies designed to "improve the condition" of those who would otherwise receive low incomes, minimum wages are amazingly perverse. So long as demand curves are negatively inclined, those who gain by securing legislated wage increments do so at the expense of others who, in the absence of the legislation, would have earned the lowest wages. With partial coverage, those who lose either work in uncovered sectors at depressed wages or withdraw from the work force. The propensity to withdraw from the work force is signaled by the elasticity of labor supply, which is a summary statistic stating workers' attitudes toward nonmarket alternatives.

In Section II of this paper, where the implications of partial coverage are considered, one result of the theoretical discussion is particularly

relevant to distributional effects. If labor-demand functions have equal elasticity in covered and uncovered sectors and if labor supply has zero elasticity, i.e., if the supply of labor does not decline as the wage falls, a legislated minimum will not affect average wages. Those retaining jobs in covered sectors gain and those working in the uncovered sector lose an equal amount. The legislation is only a tax, from some who would otherwise have earned less than the minimum to others whose earnings otherwise would have been the same. If the supply of labor shrinks as wages fall, those continuing to work following imposition of the minimum will, on average, receive an increased wage. Wages will be depressed in uncovered sectors, so that in effect workers in these sectors will be taxed, but the taxes will be less than they would have been because some leave the work force.

Supply elasticities are the key to distributional effects. If supply is highly elastic, relatively large proportions will withdraw from the work force when faced with wage reductions rather than accept lower wages. This result says that these workers view their nonmarket activities as superior to those afforded by the market at lower wages. Further, the larger the proportion of workers leaving the labor market as wages fall, the smaller is the resultant wage reduction experienced by those who remain. In the limiting case with perfectly elastic labor-supply functions, no workers are adversely affected by minimum-wage legislation, because, in the absence of legislation, all are indifferent between work in the market and nonmarket activities Therefore, none are willing to endure adverse effects generated in the market.

The thorny question of differentials. Youth differentials are currently much discussed. The idea is that, since the most adverse employment effects are realized by persons who have the lowest productive capacity and that these persons are disproportionately young, these effects can be mitigated by introducing a differential minimum that is lower for young workers.

There are a number of problems associated with a simple differential of this sort. What of adults who would otherwise earn less than the minimum? To date, we have insufficiently reliable estimates of substitution possibilities to make even remotely accurate estimates.

This issue of cross-effects with a differential is further confounded by the possibility that the level of the minimum set for adults may depend upon the existence of a youth differential. Historically, the minimum

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following legislative adjustments has been one-half the average manufacturing wage. Would the minimum set for adults be raised if a youth differential existed?

Nonmarket alternatives probably are superior for teenagers than for adults. These alternatives are expressed in labor-supply elasticities; the more elastic the supply, the greater the buffer offered by nonmarket activities to employment adversities generated by minimum wages. A youth differential has the potential of shifting the brunt of the adverse-employment (and, with incomplete coverage, wage) effects from youths whose alternatives outside the labor market offer insurance against market adversities to older workers with inferior alternatives.

Should the minimum wage vary among industries and, if so, how? Aside from distributional issues, the answer seems obvious: Yes. So long as wage minima exist, on the basis of efficiency in use of resources the objective should be to minimize distortions in patterns of resource allocation. As in the case of taxation when not all activities are taxable, the objective should be to impose the greatest marginal price distortions where response is most sluggish. This would correspond to imposing the highest wage minima on sectors with the least elastic demand for low-wage labor. Unfortunately, we have scanty evidence of industrial patterns of labor demand.

Incomes policies. It is probably safe to assume that minimum-wage legislation in some form will always be with us and the trend to complete coverage will continue. Interaction between wage legislation and incomes policies is relevant. For example, negative-income-tax proposals operating through reinforcement of income and substitution effects on labor supply have the effect of raising reservation wages, of increasing the wage level at which workers withdraw from the work force rather than accept lower wages. Wage-subsidy programs differ, since the substitution effect is toward increased labor supply. With incomplete coverage, minimum-wage legislation exacerbates labor-force withdrawal associated with negative income taxes, but if the wage subsidy is counted as part of the minimum, a program of this kind reduces the adverse employment effects associated with minimum-wage legislation. Whatever the relative merits of the two alternative incomes policies, the position of wage-subsidy programs is improved with the existence of minimum-wage legislation.

Further Research

What should be the focus of further research on minimum-wage effects? My own prejudice is that three important types of information would aid in evaluating these programs:

1. Information on own and cross elasticities of demand between various groups of laborers. Not only for minimum-wage legislation but for all simulations of effect of welfare-oriented policies, these are key parameters.

2. Labor-supply functions of low-wage workers. Here our knowledge is better, but there remains the question of alternatives for those displaced by minimum-wage legislation. In particular, how are school-enrollment rates of teenagers affected and how are labor-force participation rates of females, especially mothers of young children, affected?

3. Effects of minimum-wage legislation on wage distributions. At issue is the question of enforcement and compliance, along with that of wage depression in uncovered sectors. The combined effects on wage (and hours) distributions and on participation rates are at the heart of any analysis of distributional effects of these programs.

In closing, I should note that no empirical study I am aware of has dealt with the simultaneous determination of minimum-wage level and coverage, on the one hand. and unionism on the other. Yet casual empiricism consisting of correlations between coverage and unionism patterns, or of observations of the incidence of union representatives testifying before Congress in behalf of minimum-wage legislation, suggests that the two are part of the same larger phenomenon.

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DISCUSSION

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IN reality, there are two papers here; the first includes some highly original theoretical work involving a two-sector model of the labor market, while the second is a slight extension of the large literature on the effects of the minimum wage on teen-age employment. The first paper is rigorous and full of suggestions for directions that future research could take; the second adds little to our knowledge, chiefly because its basis in the theory derived earlier is fairly weak.

The two-sector model has proved fundamental to labor economists in analyzing the effects on wages and employment of such phenomena as racial discrimination and trade unionism. Welch has demonstrated its further usefulness by showing how, if we divide the economy into covered and uncovered sectors, we can analyze the effects of changes in the minimum wage. By laying out the mechanisms that determine the final effects on wages in the covered and uncovered sectors, this paper provides the framework necessary for estimating these effects simultaneously.

I have only two problems with this first paper. The breakdown into covered and uncovered sectors that motivates the model is one that, as Welch's tables show, is becoming decreasingly important. With the enactment of the 1974 amendments to the Fair Labor Standards Act, the percentage of aggregate coverage has risen from 79, listed in Welch's Table 2, to 83. Surely, future changes in the law will increase the fraction covered still further, putting an even heavier burden of increased minima either on wages in the uncovered sector or on labor-force participation. A third alternative, one not covered in this study, is the existence of search unemployment in the covered sector. With the uncovered sector decreasing in size, increases in the federal minimum wage are likely to cause increased search unemployment, as workers who cannot immediately find employment in the covered sector queue up there rather than leave the labor force or move to the small uncovered sector.

A second problem is the neglect of secondary effects induced by increases in the minimum. If there is capital deepening or induced labor-saving innovation in response to statutory increases in the price of labor,

the dynamic welfare loss will be less than the static loss. Given the likelihood that capital and skilled labor are complements,[1] and the implication of Welch's analysis that increased statutory minima increase the demand for skilled labor, the secondary effect on capital deepening could be substantial.

Despite these problems, this first paper in Welch's study is an excellent application of economic theory to labor-market problems.

Unfortunately, the same high marks cannot be given to the empirical paper in this study. There are two fatal flaws: (1) It ignores cross-elasticities of demand for various skill groups. While Welch alludes in the conclusion to the need for research that would estimate these elasticities, there is no reason why such estimation could not be incorporated directly into a model that estimates them along with the effects of the minimum wage. I present the outlines of such a model below. (2) The specification of the equations estimated is not tied to theory, a particularly serious problem insofar as lags are involved.

The appropriate model for estimating the effects of the minimum wage would entail the construction of a complete system of demand equations for labor for a set of skill groups that exhaust total employment in the private economy. Such a system would look like:

$$E_{ijt} = F(Y_{jt}, w_{ijt}, w_{i'jt}, c_{jt}, WMIN_t), i = 1, \ldots, n, \qquad (1)$$

where E = employment of skill group i in industry j at time t
Y = output
w_i = wage in the particular skill group
$w_{i'}$ = a vector of wages in all the other skill groups
c = coverage ratio in the industry
$WMIN$ = minimum wage prevailing at time t.

This system of n equations could be estimated over some breakdown of industries using pooled cross-section and time-series data. Data are available on employment by major industry by age group, and data on the wage rates, or at least earnings, can also be obtained. The coefficients can be estimated using the seemingly unrelated method and then used to simulate the effects of changes in *WMIN* and in c.

The most important feature of this formulation, aside from its firmer basis in the theory of factor demand, is that it allows us to estimate

[1] Griliches (1969) presents evidence on this partial elasticity of substitution

jointly the effects of statutory wage changes on *all employment categories*. Proponents of the minimum wage often argue that it increases employment for groups whose prior wages were slightly above the new minimum, and this approach enables the researcher to test this statement.

Even taking the estimates in Tables 4 and 5 as reflecting a reasonable set of variables for inclusion in employment equations, there are serious problems with the specification. Because of specific costs of hiring and training, firms faced by increased statutory minimum wages are less likely to lay off workers whose productivity no longer is justified than to substitute higher-productivity workers when vacancies occur. While turnover rates are fairly high, this process plus slowness in firms' planning imply lags in adjustment to changed minimum-wage rates. Accordingly, estimates of the sort in Tables 4 and 5 will contain errors because of the failure to include distributed lags on the minimum-wage terms. As Mincer (1974) has shown in his work, a set of lagged terms will be significant.[2] Without it, there is very little that we can infer from these results.

As chance would have it, I took a position in the Department of Labor shortly after the conference at which these comments were read. A large fraction of my time has been spent with problems related to evaluating the effects of minimum-wage legislation. The gulf is immense between the level of discourse in the first part of Welch's study and that current among policymakers. The simple idea of a downward-sloping demand curve for labor is denied as being contrary to what the "evidence" in Labor Department–sponsored studies suggests. Among the few who recognize the existence of a demand curve, the feeling (unsupported by analysis) is that secondary effects on workers earning just above the minimum wage are large enough to offset the direct, negative employment effects.

How can we as economists deal with this communication failure? Most important, we can and should account for the secondary effects in our empirical estimates by using models of the type in equation system (1). Only if our estimates are based on models like this can we respond to criticisms that we have overestimated the total employment effect of the minimum wage. Welch's empirical work is clearly subject

[2]Mincer estimates employment functions with 6- to 8-quarter lags that are significant for most demographic groups.

to this criticism, and this serves to direct attention away from his important theoretical work With more careful empirical work, the effects suggested by Welch's theoretical advances can be estimated and the impact of the minimum wage can be evaluated as completely as existing data allow.

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Norman J. Simler

FINIS WELCH has shown that the effects he has been able to observe of changes in minimum-wage legislation (increases in the level of the minimum and/or the fraction of the work force covered) are consistent with the predictions of competitive theory. Workers who are easily replaced by either other-labor or nonlabor inputs (those in whom there have been embodied few or no firm-specific investments or other fixed costs and who are in the lower tail of the wage distribution) have a much greater probability of losing their jobs than anyone else. Concretely, the adverse employment effects of a one-time increase in the effective minimum are greater for teenagers, nonwhites, and females than they are for adults, whites, and males. Over time, economic growth and rising prices reduce the ratio of the nominal minimum to the average wage and erode away the initial employment effects, more rapidly during cyclical upswings, more slowly, or perhaps not at all, during downswings. As a result, employment fluctuations are greater for these more adversely affected groups than for others in the labor force.

What does a person do who loses his (or her) job because the minimum wage has been raised to a level above the value of his marginal product or, what comes to the same thing, because his marginal product has dropped below the statutory minimum? He can mill around the covered sector, unemployed but searching for work—fruitlessly, it will turn out, so long as his marginal product remains below the minimum and no one subsidizes his employment. He can take a job in an uncovered sector, probably at a wage lower than he had been earning. Or, if his reservation wage is greater than the best he can do in uncovered markets, he can drop out of the labor force and devote full time to nonmarket pursuits.

As the coverage ratio increases, the options open to the displaced person diminish. With complete coverage and full compliance, his choice lies between searching unsuccessfully for work and withdrawing from the market until the passage of time and his own human-capital-formation activity improve the relation between his marginal product and the effective minimum wage.

I gather that the 1974 amendments to the law, in addition to raising the level of the nominal minimum to $2.00 now and to $2.30 eventually, will also increase the fraction of the work force covered to well

over 80 percent. Confronted with a closing circle of job opportunities, what will displaced persons do now? Will they accept work at even more depressed wages than would have been the case had the coverage ratio remained unchanged? Will they mill around the enlarged covered sector and hope that a reverse black market in labor develops? Either of these outcomes may, among other things, make believers out of those who have up to now scoffed at the dual-labor-market theory. Or will those displaced simply drop out of the labor force? If they drop out, will they be passive and resigned to their fate and behave like good sports about it? Or will they become angry and frustrated with their lot and conduct themselves in antisocial ways? Who know the answers to these questions? Has any one even asked?

Perhaps, however, the situation is not all that gloomy. The effective minimum wage increased by about 30 percent over the ten-year period between 1954–58 and 1964–68. Assuming there was no change in the coverage ratio after 1968, the increase over the fifteen-year period between 1954–58 and 1969–73 was also about 30 percent. The fraction of young people (16–24 years) not enrolled in school (the nonenrollment rate) fell from about 66 percent in 1954–58 to about 55 percent in both 1964–68 and 1969–73—a decrease of roughly 16 percent. At the same time, the proportion of this age group neither enrolled in school nor in the labor force (the "do nothing" rate) dropped even faster—from 21 percent in 1954–58 to 16 percent in 1964–68 (a decline of about 23 percent) to 14 percent in 1969–73 (a decline of about 33 percent since 1954–58). Although not an argument in favor of increasing the effective minimum wage, the declining nonenrollment and "do nothing" rates do not support the view that minimum-wage legislation is generating a reserve army of young revolutionaries. Disaggregation of these data by age, sex, and race may reveal something different, but even the "do nothing" rate for teen-age males appears to have held steady at about 3.5 percent over this ten- to fifteen-year period.

Who are the persons most likely to be displaced by the 1974 changes in the law? Has anything happened since 1968 that might make some of Welch's displaced persons less likely candidates for displacement? One thing that occurs to me is that the spread of effective affirmative-action programs has increased the fixed costs of employment for members of heretofore adversely affected minority groups. The search, hiring, training, and termination costs associated with the employment

of women and nonwhites have risen both absolutely and relative to their total employment costs. These programs have tended to make women and nonwhites not only more likely prospects for employment but less likely candidates for displacement. That is, they are now less likely to be the persons last hired and first fired. On the other hand, white male teenagers and young adults would seem now to be even more exposed to the hazards of minimum-wage legislation.

The other thing that strikes me is that we may not be able to observe many, if any, disemployment effects in the next year or two. Barring a prolonged or deep recession, a double-digit inflation rate may very quickly make the $2.00 or $2.30 minimum a bargain rate. But this may prove to be small comfort to those of us who will soon yearn for the good old days when bread was a dollar a loaf, gasoline a dollar a gallon, and a dollar was worth 50 cents.

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EFFECTS OF MINIMUM WAGES ON THE LEVEL AND AGE COMPOSITION OF YOUTH EMPLOYMENT*

Finis Welch and James Cunningham**

I. INTRODUCTION

This paper (1) presents estimates of minimum wage effects on employment of teenagers 14-15, 16-17 and 18-19 years, and (2) decomposes these estimates into scale and substitution components for calculating effects of differential minima. In 1972 the House of Representatives approved an amendment to the Fair Labor Standards Act calling for a youth differential, but one was not included in the Senate version. These bills died when the House refused to submit to conference. In 1973 the Administration proposed another amendment containing a youth differential, but the amendment passed by Congress later that year eliminated it. Although attempts to enact a youth differential have failed, it is clear that support for these measures comes from a consensus concerning the relatively adverse effects of existing minima on teenage employment. It is also likely that the question of differential minima is not dead and it would be nice to have estimates of what effects might be if a differential were enacted.

The point of departure for all of minimum wage studies has been that those most adversely affected are those who in the absence of the

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minimum would have earned the lowest wage. In comparing teenagers to adults, there is fairly consistent evidence that minimum wages reduce teenage-adult employment ratios.[1] But there is less evidence among groups of teenagers themselves.

The Labor Department Survey (1970) contrasted males and females, white and non-white, for employment of those 16-17 and for those 18-19. Results are mixed. For white males, estimates conform to expectations of more adverse employment effects for younger workers, but results for white females are inconclusive and there is no relationship for non-white teenagers. Jacob Mincer (1976) and Nori Hashimoto and Mincer (1970) combine all ages 16-19 into one group but distinguish whites from non-whites and find more adverse effects for non-whites. Similarly, Marvin Kosters and Finis Welch (1972) treat ages 16-19 as a single class and distinguish employment by sex and race. More adverse effects are reported for non-whites than for whites and for females than for males.

Each of these studies uses time series estimates of teenage employment from Current Population Surveys. These data contain large sampling errors especially for age, sex, and race partitions.[2] Students and part-time workers are not distinguished, wages are not available and because the data are for aggregates, state minimum wage laws are ignored.

Here, the data are from the 1 in 100 Public Use Sample of the 1970 Census and refer to teenage employment in the week before the Census was taken. Individual observations are aggregated to state totals. Nationally, students account for half of total employment but only one-third of hours worked and females work 95 percent as many hours as males.

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[1] See, for example, the paper by Jacob Mincer (1976) and the Labor Department Survey (1970).

[2] See Welch (1974), the comment by Sishkind (1977) and reply by Welch (1977) for discussions of some of the peculiarities of these data.

Aggregation weights reflect these differences in hours worked. The Census does not contain reliable wage information, and as is true of all previous studies, there is a problem in estimating legislative effects on costs of teenage employment. Cross-state observations enable us to include state wage laws in our estimates of these costs.

Section II describes our procedure for inferring legislative effects on teenage employment costs and provides estimates of associated changes in employment. Section III provides empirical results for a decomposition of estimated effects into scale and substitution components and gives estimated effects of a 20 percent youth differential extended first to those 14-15 and then to those 14-17 year old. A Summary follows.

II. EMPLOYMENT EFFECTS OF A UNIFORM MINIMUM WAGE

Costs of Employing Teenagers

Ideally, one would like to observe wages with and without wage legislation for direct measures of costs. As noted, none of the cited studies of effects use direct wage evidence and this is no exception. The Census contains no reliable information of hourly wages for youths.[3] Our approach is to assume that in the absence of wage legislation, the average teenage wage in each state would be a fixed fraction of the average hourly wage of adult males employed in manufacturing. We assume further that the wage distribution of teenagers in each state would be

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[3]The Census reports earnings last year, weeks worked last year and hours worked in the week preceding enumeration. The Census week is (roughly) the first week of April. For teenagers working behavior changes rapidly with age and this and last year may be quite different. In particular for students, many of the weeks worked last year may have been summer weeks. Clearly, teenager hourly wages cannot reasonably be computed by dividing earnings last year by the product of last year's weeks and last week's hours.

of identical form. Finally, we assume that the first-order effect of wage legislation on the cost of employing teenagers is as though wages for all those who would otherwise earn less than the legislated minimum are simply pushed to the minimum, while wages of those who could earn more are unaffected.

In a study of youth wage structures, Donald Parsons (1973) reports estimated wage equations for teenagers in- and out-of-school in 1967. Our estimates of average hourly wages are taken from the Parsons' study. The estimates are that those 18-19 years old, on average for the nation, receive wages two-thirds of the average hourly wage in manufacturing. Those 14-15 receive 0.56 of the 18-19 average, and the corresponding number for those 16-17 is 0.77 of that for the 18-19 group. We assume that these ratios hold for each state.

For simplicity, a single parameter Gamma density is used as indicative of teenage wage distributions that would exist in the absence of wage legislation. That density is

$$(1) \quad f(t) = \rho^2 t e^{-\rho t}; \; 0 \leq t \leq \infty ,$$

where t indicates the wage received in the absence of legislation. The mean is $2/\rho$ and variance is $2/\rho^2$. This density is positively skewed and traces a pattern "similar" to empirically observed wage distributions for groups of low average wages. The effect of a mandated wage floor, $t \leq t_o$, on the average cost of employment is:

$$(2) \quad \Delta E(t)/E(t) = R(1+e^{-2R}) - (1-e^{-2R})$$

where $R = t_o \rho/2$.[4] The advantage of the assumed density is obvious since relative cost effects depend only upon the ratio, R, of the minimum wage to the pre-legislative average wage of the group.

Historically, the federal minimum is roughly three-fourths of the average wage for those 18-19, so the implication here is that this legislation has increased cost of employing this group by about 14 percent in covered sectors. Corresponding numbers for 16-17 and 14-15 year olds are 27.1 and 43.5 percent, respectively. Because a uniform minimum increases the relative cost of hiring the youngest teenagers, we expect the most pronounced reductions in employment for them.

Estimates of relative employment costs for each of the three teenage groups are computed as an average of relative cost effects in federally and state covered sectors. Weights for these averages are taken from the industry of employment distribution for adult males as reported by the Census.[5] By 1970, federal legislation is dominate accounting,

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[4] Examples of effects on average costs for alternative values of R are:

(1)	Minimum Relative to Average Wage, R =	.50	.75	1.00	1.25	1.50
(2)	Percentage Increase in Average Employment cost	5.2	14.0	27.1	43.5	62.4

[5] We assume that without wage legislation the wage distributions in all sectors (federally covered, state covered, and not covered) would be identical, so the effect on teenage employment costs are computed separately by sector and then averaged using adult employment distributions within the state. Separate cost effects are computed for each teenage group. When state laws exempt minors (under 18) we simply treat minors as though there is zero state coverage. When state laws exempt students, the state coverage rate for adult males is scaled downward by multiplying by the national average fraction of non-students in the appropriate age group. No cost effects are assumed for uncovered sectors.

on-average, for 85 percent of private non-agricultural employment. Variations between states in federal effects stem both from variation in coverage and (mainly) from variance in average manufacturing wages against a constant nominal federal minimum of $1.60/hr. Estimates of state legislative effects are derived from summary descriptions of state laws contained in the Labor Department Survey (1970; Appendices A and B). Thirteen states had no active legislation as of 1970. Another eight exempted workers under 18 and a variety of states had either student exemptions or differentials for students, minors (under 18), and "learners." It is assumed that wages in sectors covered neither by federal nor state legislation are unaffected.[6]

We had hoped that variance in federal coverage and in details of state legislation would result in enough variance in relative cost structures between teenage groups to permit direct estimation of own-and cross-price effects. Table 1 presents national average cost effects together with correlations among teenage groups. Two things are obvious. First, if this imputation procedure is reasonable, minimum wage legislation has significantly increased costs of employing teenagers. Second, among states, patterns of effects are so collinear (the minimum element in the correlation matrix is .955) that direct estimates partial demand elasticities cannot be obtained.

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[6]See Welch (1974) for a discussion of the probability that wages in uncovered sectors fall and Mincer (1976) for the contrary possibility that they rise.

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TABLE 1

ESTIMATED INCREMENTS IN TEENAGE LABOR COSTS
Summary Statistics for 49 "States," 1970 /a

	Teenage Group		
	14-15	16-17	18-19
	years old		
A - Percentage Increase Costs			
(1) Mean	37.32	19.23	11.30
(2) Standard Deviation	(9.46)	(5.59)	(3.40)
B - Correlations with Increment for Those			
(1) 14-15 years old	1.0	---	---
(2) 16-17 years old	0.991	1.0	---
(3) 18-19 years old	0.955	0.968	1.0

/a Alaska and Hawaii are excluded and Washington, D.C. is treated as a separate state.

Gross Demand Elasticities

Panel A of Table 2 contains ordinary least square (OLS) regression estimates for three equations. Pronounced collinearity among the three minimum wage constructs precludes introducing all three wage variables, and hence only the variable for 18-19 year-old workers was included in these regressions. Residuals of estimation are correlated between equations within states and these correlations are presented in Panel B of Table 2.[7]

[7] Notice that even though residuals are correlated among equations, independent variables in the three estimated equations are virtually identical, differing only in variable (2), the equation specific teenage/

TABLE 2

REGRESSION ESTIMATES OF MINIMUM WAGE EFFECTS ON YOUTH EMPLOYMENT OBSERVATIONS ARE OF 49 "STATES" IN 1970. ABSOLUTE VALUES OF t-RATIOS ARE IN PARENTHESES /a

A: OLS Regression Results

	Teenage Group		
	(1) 14-15	(2) 16-17	(3) 18-19
(1) Fractional increase in cost of 18-19 year old workers caused by minimum wages	-4.036 (3.21)	-2.382 (2.45)	-1.349 (2.71)
(2) Teenage/adult population in state	2.280 (5.40)	1.797 (5.47)	1.115 (5.62)
(3) Fraction of state's labor force unemployed	-4.290 (1.26)	-2.469 (0.94)	-3.236 (2.30)
(4) Fraction of state's population residing in urban areas	- .592 (1.87)	.231 (0.92)	- .139 (1.13)
(5) Intercept	-3.603	-3.176	-1.912
R^2	.55	.48	.58

B: Correlations Between Estimated Residuals

	Residuals		
	(1)	(2)	(3)
Equation			
(1)	1.0	---	---
(2)	.66	1.0	---
(3)	.61	.68	1.0

a/ The dependent variable (teenage/adult male employment) and the population ratio variable are expressed in logarithms (base e).

The dependent variable is expressed as a logarithm (base e) and the minimum wage variable as a proportional increment so that the estimated coefficient on the minimum wage variable is an elasticity. On average, a one percent increase in the cost of 18-19 year-old workers resulting from wage legislation is associated with a 1.7 percent wage increase for those 16-17 and a 3.3 percent increment for 14-15 year-old workers. Thus, the minimum wage coefficients in Table 3 are interpreted as the employment effect of a one percent increment in costs of 18-19 year-old workers *when costs for 16-17 year-old workers increase by 1.7 percent and costs of employing those 14-15 years old rise 3.3 percent.* This combined effect is to reduce employment of those 14-15 by 4.04 percent, by 2.38 percent for those 16-17, and by 1.35 percent for 18-19 year-old youths. The evidence that employment of those 18-19 years falls despite reductions in their employment costs *relative* to that of younger groups suggests that substitution between these groups is less than might have been expected.

III SCALE AND SUBSTITUTION COMPONENTS IN EMPLOYMENT EFFECTS

The gross employment elasticities reported in Table 2 carry the interpretation:

$$(4) \quad a_i = \eta_{1i}\alpha_1 + \eta_{2i}\alpha_2 + \eta_{3i} \text{ for } i = 1, 3$$

where i indexes the 14-15, 16-17, and 18-19 age groups. Parameters α_1(= 3.3) and α_2(= 1.7) are the (average) cost increments relative to

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male adult population ratio. With strong similarity in independent variables, OLS estimates are identical to the more general "seemingly unrelated" estimates ordinarily preferred in cases of correlated residuals. Because residuals are contemporaneously correlated, however, parameter estimates are correlated between equations.

those for the 18-19 group, and η_{ij} are ordinary (partial) factor demand elasticities. If production were weakly separable such that the three teenage groups are first combined into a (linearly homogeneous) composite, teenage labor, which is then combined with other inputs (adult labor), then partial demand elasticities can be decomposed according to

$$(5)\quad \eta_{ij} = k_j(\sigma_{ij} + \eta)$$ [8]

where k_j is the expenditure share of group j in the teen composite, σ_{ij} is the Allen-partial elasticity of substitution between groups i and j (again, in the teen composite), and η is the scale effect, i.e., the elasticity of demand for the composite of teenage labor. Since expenditure shares are easily estimated at the national mean, equation (5) using symmetry ($\sigma_{ij} = \sigma_{ji}$) and additivity ($\sum_j k_j\sigma_{ij} = 0$) constraints can be substituted into (4) to yield a system of three equations with four unknowns. The equations are for each of the gross elasticities (estimated in Table 2) and the unknowns are the substitution elasticities (σ_{12}, σ_{13}, σ_{23}) and the scale elasticity η.

Clearly, collinearity of relative cost effects, which precludes direct estimation of partial demand elasticities, forestalls our attempt to obtain reasonably precise estimates of scale and substitution effects. Yet, it is these parameters that are the ingredients necessary for estimating effects of youth differentials. Because there are no alterntive estimates, we proceed on the basis of a reasonable, albeit arbitrary, identifying assumption. That assumption is $\sigma_{12} = \sigma_{23}$. Namely, we impose the constraint that the intermediate age group (those 16-17) is equally substitutable for the two extremes (those 14-15 and those 18-19).

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[8] This standard decomposition is presented in Allen (1938).

Based on this assumption, scale and substitution components and partial demand elasticity estimates are reported in Table 3, together with conditional sampling errors. Sampling errors take cognizance of dependence between gross elasticities via an assumption that $\text{Cov}(\hat{a}_i, \hat{a}_j) = r_{ij} S_i S_j$ where S_i and S_j are standard errors for $\hat{a}_i$ and $\hat{a}_j$, respectively, and r_{ij} is the correlation of residuals between the i-th and j-th equation.[9]

The estimated scale elasticity is -1.34 with a two-standard-deviation confidence band ranging between -2.24 and -0.44. The estimated substitution elasticity between 14-15 and 18-19 year-old workers is 1.01 and the substitution elasticity of those 16-17 for both the 14-15 and the 18-19 groups is 1.62. Computed standard errors suggest little precision for the substitution estimates.[10] This, in effect, is the cost of having to infer substitution relationships from the gross elasticities.

In any case, the evidence presented in Table 2 is that minimum wage legislation has reduced employment of each of the three age classes of teenagers. The decomposition contained in Table 3 suggests reasonably precise estimates of scale effects but less precision in estimating substitution relations. The relatively low precision of the latter is exhibited in Panel C where estimated demand elasticities are reported. Only the own demand elasticities for 14-15 and 18-19 year olds exhibit "small" standard errors in comparison to parameter estimates.

Although we would prefer more precision, the elasticity estimate of Table 3 provide at least a tentative basis for projecting employment

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[9] The covariance assumption would be exact if explanatory variables in the i-th and j-th equation were identical. In computing variances for the scale and substitution components expenditure shares are treated as constants rather than estimates as are the relative cost effects, a_1 and a_2.

[10] While it is gratifying that the estimated substitution elasticity between the two extreme groups is smaller than that estimated for adjacent groups, the estimates are not statistically different.

TABLE 3

ESTIMATED SUBSTITUTION AND SCALE ELASTICITIES FOR TEENAGE WORKERS BY AGE CLASS
(Standard Errors are in Parentheses)

A. Scale and Substitution Elasticities

(1) Scale: The elasticity of demand for	(2) Substitution: The elasticity of substitution of	
Aggregate teenage employment, $\hat{\eta}$	Those 14-15 years old for those 18-19 years, $\hat{\sigma}_{13}$	Those 16-17 for either those 14-15 or those 18-19 years, $\hat{\sigma}_{12}$
-1.34	1.01	1.62
(0.45)	(0.65)	(1.46)

B. Correlations Between Scale and Substitution Elasticity Estimates

	$\hat{\eta}$	$\hat{\sigma}_{13}$	$\hat{\sigma}_{12}$
$\hat{\eta}$	1.0	---	---
$\hat{\sigma}_{13}$	-.053	1.0	---
$\hat{\sigma}_{12}$	-.513	-.469	1.0

C. Estimated Demand Elasticities

	Percent Change in Employment of those		
With respect to the wage of those	14-15	16-17	18-19
14-15	-1.192 (0.436)	.021 (.095)	- .025 (.057)
16-17	.071 (.330)	-1.549 (1.147)	.071 (.330)
18-19 years old	- .222 (.513)	.186 (.826)	-1.278 (.388)

effects of youth differentials. The first differential considered reduces the legal minimum from the 1970 base of $1.60 to $1.28 (a 20 percent change) for those 14-15. The second extends this same differential to both the 14-15 and 16-17 age groups. In reference to the hypothesized Gamma density a $1.60 to $1.28 reduction of the minimum would lower employment costs of those 14-15 by about 18.7 percent and would lower costs of those 16-17 by 10.3 percent, at the national mean.

When the differential is extended only to the youngest group, point estimates are that employment of those 14-15 rises by 22 percent while employment of those 16-17 falls by 0.4 percent and 18-19 employment rises 0.5 percent. Since employment of 18-19 year olds exceeds that of the 16-17 age group, the estimate is that total employment of the combined 16-19 group would increase.

Numeric employment shares (as opposed to expenditure or cost shares) are roughly 11.7 percent for 14-15 years, 29.3 percent for 16-17 years, and the 18-19 year group accounts for 59 percent of total teen employment. The elasticity of total teenage employment with respect to the 14-15 wage is

$$S_1\eta_{11} + S_2\eta_{21} + S_3\eta_{31} \text{ where } S_i = 1, 3$$

refers to numeric shares, is estimated as -.147 with standard error, .044. Thus when the differential is extended only to the youngest group, a two-standard-deviation confidence band for total teen employment ranges from 1.1 to 4.4 percent for increased employment. For those above 15, the estimated employment elasticity is -.010 with standard error, .032. The corresponding two-standard-deviation confidence band for employment

of those excluded from the differential spans from a 1.0 percent reduction to a 1.4 percent increase. Evidently this differencial would increase total teenage employment. Whether employment of older teenagers would rise is uncertain, but whatever the direction, the magnitude of the change appears small.

When the hypothetical differential is extended both to the 14-15 and 16-17 groups, large sampling errors take a toll. The (two standard-deviation) band for total teenage employment ranges from a predicted increase of 10.9 percent to a reduction of 0.8 percent and the corresponding interval for employment of those, 18-19, excluded includes increases of 5.5 percent and decreases of 6.0 percent. Total teenage employment would probably increase but its age composition is uncertain.

V SUMMARY AND CONCLUSIONS

The purpose of this study is to examine effects of minimum wages on youth employment. Three teenage classes are selected for those 14-15, 16-17, and 18-19 years old. Using external evidence, we estimate that the pattern of federal and state minima exisitng in 1970 had effectively increased costs of employing 14-15 year olds by 37 percent, by 19 percent for 16-17 year olds, and by 11 percent for those 18-19. In 1970, the federal minimum was $1.60 and had the federal legislation been extended to all sectors, the numbers for increased cost would have been 49, 25, and 15 percent, respectively.

Because uniform minima have larger wage effects for younger workers, we expect larger employment effects for these groups and that is what the data show. At the national mean, we estimate that as of 1970, minimum wages had reduced employment of 14-15 year olds by 46 percent, by 27 percent for those 16-17, and by 15 percent for the 18-19 year-old group.

The fixed nominal level of the federal minimum results in larger relative wage effects in states where wages otherwise would be low. We have not focused on the geographic distribution of minimum wage effects, although geographic patterns may be of interest. For example, at the national mean we estimate that minimum wages have increased costs of employing teenagers by 15.2 percent. In contrast, in Arkansas where the calculated effect is greatest, average teenage costs were increased 26.3 percent as of 1970. For Arkansas, we estimate that minimum wages reduced employment by 79, 47, and 26 percent, respectively, for those 14-15, 16-17, and 18-19 years old. In Arizona, Illinois, and New Jersey, minimum wages appear to have the least effect and increased average teenage costs by roughly 10.0 percent. For these states, we estimate reduced employment of 30, 18, and 10 percent for the three teenage groups.

Although there exists a variety of state minimum wage laws, we find that by 1970 the higher level of the federal minimum and high federal coverage empirically swamps variation in state laws. For practical purposes, the 1970 minimum wage structure could be characterized as one of a single minimum holding for all age groups.

Following the analysis of effects of a uniform minimum, we decompose estimated gross employment elasticities into substitution and scale components. This exercise is not wholly successful in the sense that standard errors of estimation are much larger than we would prefer. The decomposition does, however, provide a basis for estimating effects of youth differentials, of differing wage minima for the three teenage groups. In calculating employment effects of differentials for either 14-15 year olds, 16-17, or both, we estimate that these differentials

would increase total teenage employment. The amount of the increase is largely conjectural, since error variances in estimated parameters are large. For example, we estimate that a two-standard-deviation upper bound for increased teenage employment of roughly 5 percent for a differential of $1.60 - $1.28 extended to the 14-15 year-old group and an upper bound increase of 10 percent if the same differential is extended to all those 14-17 years old. The lower bound in each case is roughly zero, so that a reduction in total teenage employment seems unlikely. An important question of differentials is the effect of employment of those groups to whom the differential is not extended. For a differential extended to 14-15 year-old workers, we estimate virtually no effect on employment of those 16-19 years old.' The substitution effects are nullified by scale effects. For a more broadly based, $1.60 - $1.28 differential extended to those 14-17, the range of uncertainty concerning employment of those 18-19 is large, encompassing reductions and increases of 5 percent.

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Impact of Minimum Wages on Other Wages, Employment, and Family Incomes

ONE OF THE ISSUES that has traditionally split politicians from economists, and now splits radical economists from traditional economists, is the minimum wage. As the passage of the Fair Labor Standards Act in 1938 testified, many politicians have seen the minimum wage as a direct means of reducing poverty and providing decent living standards to low-wage workers. In this belief they have recently been joined by economists asserting that higher wages will prod firms to create better and more productive jobs for workers, that the marginal product of labor is basically unmeasurable anyway, or that labor demand is simply quite inelastic. Other economists have objected strenuously to such ideas, insisting that the long-run distortions and disemployment effects of minimum wages far outweigh any supposed short-run benefits.

For all the controversy engendered by minimum wages, the United States has not pursued the policy very aggressively, at least in an aggregate sense. In 1975 the head of a family working full time at the basic minimum of $2.10 per hour would have earned $4,368, 20 percent less than the poverty standard for a nonfarm family of four. This minimum

Note: I am indebted to Leonard Herk for help with the computer, to Michael Barth, Paul Ryscavage, and Michael Wachter for supplying and helping to interpret data, and to Daniel Hamermesh, Fred Siskind, and Wayne Vroman for making comments on an earlier draft. Much of the work here was supported by a grant from the U.S. Department of Health, Education, and Welfare.

was 46 percent of average hourly earnings in the private nonagricultural sector, a ratio substantially below that attained with the increase in the minimum wage way back in 1950. However, U.S. minimum-wage policy has had profound effects on some segments of the labor force. For one thing, the law's coverage has been broadened greatly over the postwar period, bringing in industries with lower and lower wages. For another, since the minimum is the same regardless of the age of the worker, it has very different impacts on different age groups: in 1975 the same $2.10 minimum wage was 94 percent of the median wage for those 16 to 19 years old.

Although the minimum wage is favored or opposed for a wide variety of reasons, it appears to be basically an attempt to alter the distribution of income, and in this paper I try to evaluate it from that standpoint. Minimum wages do, of course, distort relative prices, and hence compromise economic efficiency, but so do all other attempts to redistribute income through the tax-and-transfer system. The important question is not whether minimum wages distort, but whether the benefits of any income redistribution they bring about are in some political sense sufficient to outweigh the efficiency costs. Economists may still be able to devise tax-and-transfer schemes that do the job better—that is, bring about the same redistribution with less distortion—but if minimum wages do the job reasonably well, who is to say that the politicians are making a big blunder?

The single most important issue in determining the distributional effect of minimum wages is the disemployment impact, and this has been the topic of a long string of economic evaluations.[1] But, though this phenomenon has been discussed many times, to my knowledge nobody has ever dealt with the question of whether prevailing estimates of disemployment are high enough to make low-wage workers worse off from increases in the minimum wage, a topic I try to address here. I also treat issues that have had less attention, or none at all, in the journals: the importance of an uncovered sector, the interaction of minimum-wage policy with the transfer system, the variance of wage income, compliance, the reaction of other wages to changes in the minimum, the reshuffling of full- and part-time work, and the complex relationship between wages and family incomes.

1. For a convenient summary, see Robert S. Goldfarb, "The Policy Content of Quantitative Minimum Wage Research," in Industrial Relations Research Association, *Proceedings of the Twenty-seventh Annual Meeting, 1974*, pp. 261–68.

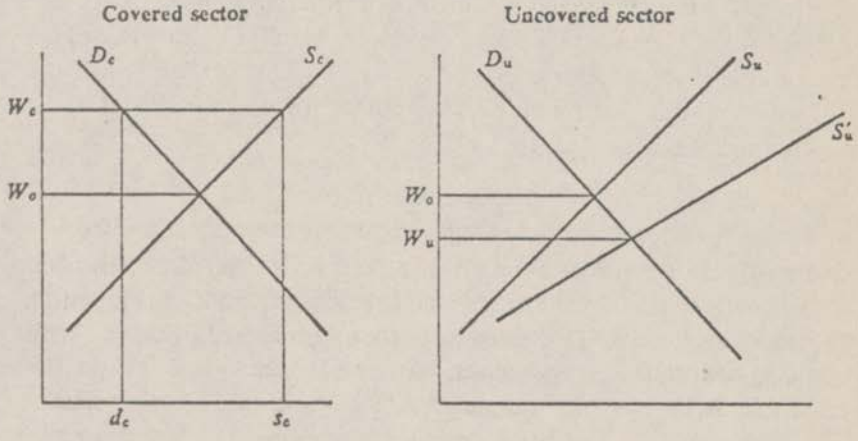
The first section of the paper deals with many of these issues from a theoretical standpoint. The empirical sections that follow deal sequentially with the impact of minimum wages on the wage structure, employment demands, and the family-income distribution. The final section summarizes implications.

The Theory of Minimum Wages

A recent proliferation of theoretical papers on the minimum wage has made it increasingly difficult to keep things straight. Various theories can be distinguished according to whether or not they assume the existence of an uncovered sector and whether or not unemployment is allowed to exist, assumptions that drastically affect the outcome. I will discuss the implications of these theories, focusing on the conditions under which certain policy changes make low-wage workers better off. The broad question is whether the benefits of higher wage rates compensate for the costs of a reduced probability of working; but the comparison can become complicated, as will be seen below. In making statements about utility levels of groups of workers, I have tried to deal with the issue of uncertainty—that is, whether the utility of a certain expected income must be downgraded if actual income varies; but I have omitted some other, nonquantifiable, benefits and costs of minimum-wage legislation. Most economists allege that these noneconomic considerations set up a prima facie case that increases in the minimum wage are harmful—because they reduce employment, eliminate opportunities for on-the-job training, saddle workers with "involuntary" intermittent job histories, impair the self-respect that comes from having a job, and the like. Yet equally impressive, and equally vague, considerations can be marshaled on the other side. A boost in the minimum wage will give workers more leisure time, perhaps enhance a worker's pride in his job, curtail job quitting and hence improve employment histories, prod employers into creating more productive, if somewhat fewer, jobs, and so forth. At the present level of ignorance, it is difficult to know which type of bias is more serious, and my approach will be to stick with objective concepts, such as the mean and variance of worker's disposable income and the value of lost employment opportunities.

UNCOVERED SECTOR, NO UNEMPLOYMENT

The theory that includes a sector not covered by the minimum wage but does not take note of the existence of any unemployment has been developed most fully by Finis Welch.[2] In the diagram below, the equilibrium wage in the absence of a minimum is assumed to be W_o in both sectors. The initiation of a minimum at W_c in the covered sector creates $s_c - d_c$ of excess labor there, and this labor is willing to transfer to the uncovered sector. But, given positively sloped supply curves, that much labor will be added to the uncovered sector *only* if the uncovered wage is W_c. As that wage is bid down, the addition to the uncovered supply, S'_u, declines by an amount that depends on who gets the covered jobs. (If the covered jobs went to those with the lowest reservation wages, the workers on the covered supply curve to the right of d_c would move to the uncovered sector and shift out the supply by an appropriate amount above their reservation wages. If the covered jobs were allocated randomly, the uncovered supply would shift out in the manner drawn.)



Obviously, the equilibrium uncovered wage in this case is W_u, slightly below W_o. But even though uncovered wages fall, it is not clear whether low-wage laborers as a group are better or worse off: those getting the

2. Finis Welch, "Minimum Wage Legislation in the United States," *Economic Inquiry*, vol. 12 (September 1974), pp. 285–318.

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higher covered wage are clearly better off; those getting the lower uncovered wages and those dropping out of the labor force are worse off. The overall result depends on the time spent in covered and uncovered employment, job turnover rates in the labor force, and workers' risk aversion—topics to which I return below.

UNCOVERED SECTOR, UNEMPLOYMENT, RISK NEUTRALITY

A more realistic model can be constructed along lines applied to minimum wages by Jacob Mincer. This theory postulates that wages in the uncovered sector would not fall all the way to the level that equates demand and supply, but would remain above that level as those workers who do not have covered jobs prefer to remain unemployed until covered jobs open up.[3] In equilibrium the free flow of labor between the two sectors should operate to equate the utility of a relatively certain but lower-wage job in the uncovered sector with that of a less certain but higher-wage job in the covered sector. Since in equilibrium the utility of jobs in the two sectors is equated, one can determine whether low-wage workers are better off as a result of a legislative change simply by measuring changes in the uncovered wage. (To borrow a phrase, that wage forms a "certainty equivalent" to the covered-sector package.)

To develop this idea, define p as the probability of a participant in the covered sector having a covered job, or

$$p = \frac{D_c}{D_c + U}, \tag{1}$$

where U is the amount of unemployment and D_c is covered employment. If there were no uncovered unemployment or any other difficulty in getting an uncovered job, no risk aversion, no cost to job switching, and no state minimum wages, the uncovered wage would be

$$W_u = pW_c + (1 - p)\, rW_c, \tag{2}$$

where r is the wage-income replacement rate for unemployment insurance

3. Jacob Mincer, "Unemployment Effects of Minimum Wages," *Journal of Political Economy*, vol. 84 (August 1976, pt. 2), pp. S87–S104. A similar model has been developed by James F. Ragan, Jr., "Minimum Wage Legislation and the Youth Labor Market," Center for the Study of American Business, Working Paper 8 (Washington University, 1976; processed). The underlying view of unemployment is also characteristic of many job-search models that have been developed lately.

and similar transfer programs.[4] When $r = 0$ this expression reverts to a simple comparison of probabilities, but as r increases—as the government picks up some of the cost of a worker's unsuccessful search for a covered job—the uncovered reservation wage increases. This simple expression shows the interaction between the transfer system and the minimum wage, which could be very important in any empirical assessment of the benefits to low-wage workers from altering minimum wages.[5]

Equation 2 ignores risk aversion and is in that sense oversimplified. If workers valued the certain income of uncovered jobs more than uncertain covered incomes yielding the same expected wage, equilibrium W_u would be somewhat below the value of the right side of 2. In terms of levels, this impact would be counteracted by the existence of state minimum wages tending to hold W_u above the right side of 2.[6] In terms of changes, however, which is how I use the model here, the incremental uncertainty of covered employment associated with an increase in the minimum wage would be ignored and for that reason the model is likely to overstate the utility to workers of such an increase.

Since actual series on uncovered wages are not compiled, the utility implications of any specific minimum-wage policy must be derived by filling

4. In principle, r should also include the welfare gain unemployed workers receive from having more leisure time.

5. There are two differences between equation 2 and the comparable equation in Mincer: (a) Mincer ignores unemployment transfers, and thus implicitly assumes that income and the value of leisure time during a spell of unemployment are zero; (b) he makes p equal to the probability of *getting* a covered job, given that a worker is explicitly searching, or

$$p = \frac{dD_c}{dD_c + U},$$

where d is both the job-separation and vacancy rate, a number less than one and generally very small. The problem here is that a worker is ignoring the higher probability that once he gets a covered job he can keep it, hence making the overall package much more attractive and the certainty-equivalent uncovered wage higher. In the long run he might more reasonably assume that the appropriate probability is the unconditional one that on any randomly chosen date he will have a covered job—$D_c/(D_c + U)$.

6. These minima now exist in forty states, at a level that averages about 85 percent of the national minimum, though coverage is often far from complete. A second factor that would tend to hold W_u above the right side of 2 is the existence of any unemployment in the uncovered sector that workers there must be compensated for: in principle, p above should be a relative, and not an absolute, probability of covered employment.

out the model and solving for the reduced-form expression for uncovered wages. This is done by introducing demand expressions for the covered and uncovered sectors, respectively:

$$\partial \ln D_c = \eta \partial \ln W_c + \partial \ln c \left[1 + \eta \left(\frac{W_c}{W_u} - 1\right)\right] \tag{3}$$

$$\partial \ln D_u = \eta \partial \ln W_u - \frac{\partial c}{1-c}, \tag{4}$$

where η is the wage elasticity of demand for low-wage employees and $c = D_c/(D_c + D_u)$ is the coverage ratio. If $\eta = 0$, coverage changes of ∂c will simply raise D_c proportionately and lower D_u by the proportion $\partial c/(1 - c)$. If $\eta < 0$, the more realistic case, there is no further effect on uncovered employment because the newly covered workers are no longer in that sector; but the increase in covered employment is lower by an amount that depends on the increase in the wages of the newly covered workers and on employers' response to it.

Combining 3 and 4 yields an expression for total employment $(D_c + D_u)$:

$$\partial \ln (D_c + D_u) = \eta \left[c \partial \ln W_c + (1 - c)\, \partial \ln W_u + \partial c \left(\frac{W_c}{W_u} - 1\right)\right]. \tag{5}$$

Notice here that if the dependent variable is the logarithm of total employment, the basic minimum and the coverage terms have different coefficients, and the coverage ratio is entered not logarithmically but linearly. As described below, previous empirical studies that have tried to deal with coverage changes have not done this, but have entered coverage changes logarithmically and forced them to have the same coefficient as changes in the basic minimum, a procedure that probably biases estimates of η downward.

A determination of whether the utility of low-wage workers is raised or lowered following a change in the minimum calls for finding

$$\frac{\partial \ln W_u}{\partial \ln W_*}.$$

This requires knowing how p varies in response to changes in the minimum wage, which in turn requires an expression for U; the covered labor force $(D_c + U)$; or the total labor force $(D_c + D_u + U)$. Adopting the simplest possible procedure—that the total labor force remains unchanged in re-

sponse to a change in either the basic minimum or its coverage—gives

$$\partial U + \partial D_e + \partial D_u = 0 \tag{6}$$

as the relationship necessary to close the system.[7]

Combining equations 1, 2, 3, 4, and 6 yields

$$\partial \ln W_u = Z\left(\partial \ln W_e\,[p(1-r) + r + p(1-r)\eta] + \partial \ln c\left\{p(1-r)\left[1 - p + \eta\left(\frac{W_e}{W_u} - 1\right)\right]\right\}\right), \tag{7}$$

where

$$Z = \frac{1}{p(1-r)\left[1 - p\left(\frac{1-c}{c}\right)\eta\right] + r}.$$

Because $\eta \leq 0$, increases in the basic level of minimum wages are seen to raise low-wage workers' utility if $p(1-r) + r + p(1-r)\eta > 0$, and coverage increases do if $1 - p + \eta(W_e/W_u - 1) > 0$. If $r = 0$ (and $W_u = pW_e$), the first expression gives the traditional result that welfare is improved when demand is inelastic: in this case p declines less than W_e rises whenever the minimum is increased, and both uncovered and covered workers are better off. The second expression is harder to satisfy, for now a 1 percent increase in coverage will raise D_e by $(1 + (1-p)\eta/p)$ percent (equation 3), and the probability of employment in the covered sector, p, if $-\eta < p$. But for both the basic minimum and its coverage, a rise in r will lower the cost of unemployment to workers and insure that workers' welfare would be improved even if labor demand is elastic.

UNIVERSAL COVERAGE, UNEMPLOYMENT, RISK AVERSION

The preceding model glosses over the issue of whether workers are risk averse, simply equating the expected value of wage income in two sectors, one with a certain and one with a variable return. This possible source of bias can be eliminated by using a model fashioned after that of Allan King,

7. A more complicated variant that allows the total labor force to vary with the uncovered wage complicates the algebra but does not change any important conclusion of the model.

which assumes no uncovered sector but tries to evaluate the utility of changes in minimum-wage legislation directly.[8]

Assume that every year low-wage workers make m independent random drawings from the job lottery to determine if they are employed in the covered sector or unemployed. Expected wage income is then

$$E(Y) = W_c[p + (1 - p)r], \tag{8}$$

with a standard deviation of

$$\sigma(Y) = W_c(1 - r)\sqrt{p(1 - p)/m} \tag{9}$$

for m market or job-recontracting periods. Since there are no uncovered wages to influence labor supply, $\partial(D_c + U) = \partial L = 0$ and

$$\partial p = \frac{\partial D_c}{L}, \tag{10}$$

$$\partial(1 - p) = \frac{-\partial D_c}{L} = -\partial p,$$

$$\partial \ln p = \frac{\partial D_c}{L} \div \frac{D_c}{L} = \partial \ln D_c = \eta \partial \ln W_c,$$

$$\partial \ln (1 - p) = -\partial \ln D_c \left(\frac{p}{1 - p}\right) = -\eta\left(\frac{p}{1 - p}\right) \partial \ln W_c.$$

S. C. Tsiang has shown that a sufficient condition for a welfare gain when both the mean and standard deviation are increasing is that $\partial E > \partial\sigma$.[9] Dividing each side by σE and transforming yields this condition as

$$\frac{\partial \ln E}{\partial \ln \sigma} > \frac{\sigma}{E}, \tag{11}$$

or, after substitution from equations 8, 9, and 10,

$$\frac{1 + \eta\left(\frac{p(1 - r)}{p(1 - r) + r}\right)}{1 + \eta\left(1 - \frac{1}{2(1 - p)}\right)} > \frac{(1 - r)\sqrt{p(1 - p)\,m}}{p(1 - r) + r}, \tag{12}$$

an expression similar to that of King except that it again incorporates the partial protection provided by transfer payments against losses of wage

8. Allan G. King, "Minimum Wages and the Secondary Labor Market," *Southern Economic Journal*, vol. 41 (October 1974), pp. 215–19.

9. S. C. Tsiang, "The Rationale of the Mean-Standard Deviation Analysis, Skewness Preference, and the Demand for Money," *American Economic Review*, vol. 62 (June 1972), pp. 354–71.

income of unemployed workers. But whereas expression 7 overstates the welfare gains of a legislative increase in the minimum wage by ignoring risk aversion, expression 12 understates these gains because it is based on the improvement required to guarantee that workers will be better off, and hence would be unwarrantedly conservative for all but the most risk-averse workers.[10]

Differentiation of this expression with respect to m shows that for any p, a greater number of market periods shortens the average spell of unemployment, reduces the variance of wage income, and raises the "break-even" elasticity at which the most risk-averse workers are indifferent between raising and not raising the minimum wage. If the actual elasticity is higher than the break-even value, the most risk-averse workers are still opposed to increases in the minimum; otherwise, they are still in favor. As before, this break-even elasticity is also increased by an unemployment compensation system or by taking account of the value of increased leisure time, both of which lower the expected income loss from a spell of unemployment.

EVALUATION

This analysis can be summarized by inserting reasonable values for p, m, and r into 7 and 12 to find the values of η that will make workers indifferent about wage increases. The calculations are performed both for the risk-neutrality model (which overstates the absolute value of break-even elasticity by ignoring risk aversion) and for the risk-aversion model (which understates it) so as to bracket the true elasticity. The calculations are also performed separately for teenagers, adult males, and adult females.

Inferences about employment rates and the number of market periods can be made from the U.S. Manpower Administration's National Longitudinal Survey of selected groups in the labor force. Robert Frank and Richard Freeman have recently used the retrospective work history question on this survey to compute the mean lengths of spells of employment and unemployment for various groups.[11] From these mean spells employ-

10. An indication of just how conservative this standard is comes from the fact that it would not value an equal-probability (0, $4) bet (with $E(Y) = \$2$, $\sigma(Y) = \$2$) any more highly than an equal-probability (0, $2) bet (with $E(Y) = \$1$, $\sigma(Y) = \$1$).

11. See Robert H. Frank and Richard T. Freeman, "Distribution of the Unemployment Burden: Are the Last Hired Fired First?" (Cornell University, 1976; processed).

ment rates can be derived for the same groups by dividing the average length of time a worker is employed by the average time he is either employed or unemployed. Since the Frank-Freeman estimate of the employment rate, ff, is for the entire labor force, whether or not covered by the minimum wage, I have computed employment probabilities within the covered sector (p) by inserting estimates of c into the expression $ff = pc + (1 - c)$, where employment rates are assumed to be one in the uncovered sector.[12] The length of a market period is then equated to the length of an average spell of unemployment, under the assumption that workers recontract their job situation at these intervals and do not recontract for a new spell of unemployment. The resultant number of market periods per year (m) is thus 8.0 for teenagers (average unemployment spell of 6.5 weeks), 5.8 for adult males (9 weeks), and 4.0 for adult females (13 weeks).

The replacement rate (r) is derived by finding, for workers who are eligible for unemployment insurance and other transfer benefits, the ratio of after-tax transfer income during a spell of unemployment to after-tax wage income. These ratios range from 0.6 to 0.75 for the three groups, somewhat higher than the supposed 0.5 rate for unemployment insurance because transfers are not taxable and because some workers also get food stamps and public assistance. No value is placed on leisure time, which may mean that the break-even elasticities are understated. Values for r for the entire low-wage population are then derived by multiplying the replacement rates for eligible workers by the probability that workers will be eligible for transfers (0.15 for teenagers, 0.5 for low-wage adult males, and 0.3 for low-wage adult females) on the basis of work that I have previously done.[13]

The break-even elasticities using these assumptions are given in table 1. A comparison of the top and the bottom panels shows that unemployment insurance programs and the like always raise the elasticities, for reasons described above, while adjustment for the variance in wage income in the risk-aversion model always lowers them. On balance, these deviations approximately cancel each other, as the high and low estimates bracket the simple-minded value of 1 (in response to wage increases) for all three

12. I did sensitivity checks on this assumption by assuming that the uncovered employment rate is the same as the covered rate, and hence that $ff = p$. The results are little changed.

13. "The Distributional Effects of Higher Unemployment," *BPEA, 2:1974*, pp. 293–336.

Table 1. Break-Even Elasticities of Labor Demand for Low-Wage Workers without and with Transfers, Selected Demographic Groups[a]

Assumption about transfers, demographic group, and policy change	*High estimate*	*Low estimate*
No unemployment transfers		
Teenagers		
Basic minimum wage	1.00	0.66
Coverage	0.76	...
Adult males		
Basic minimum wage	1.00	0.54
Coverage	0.92	...
Adult females		
Basic minimum wage	1.00	0.53
Coverage	0.86	...
Present system of unemployment transfers		
Teenagers		
Basic minimum wage	1.13	0.77
Coverage	0.86	...
Adult males		
Basic minimum wage	1.54	0.87
Coverage	1.40	...
Adult females		
Basic minimum wage	1.35	0.75
Coverage	1.16	...

Sources: Text equations 7 and 12. The following values, derived as explained in the text, were used in the equations: for p, the probability of having a job in the covered sector, 0.76 for teenagers, 0.92 for adult males, 0.86 for adult females; for m, the number of market periods a year, 8.0 for teenagers, 5.8 for adult males, 4.0 for adult females; for r, the wage-income replacement rate for transfer programs of the unemployment insurance type, 0 for groups without unemployment transfers, and for those with transfers, 0.09 for teenagers, 0.33 for adult males, 0.23 for adult females.

a. If the absolute value of the wage elasticity of labor demand is less than the number shown, low-wage workers are made better off by an increase in the basic minimum wage or its coverage.

groups. The complex model has a lower bound for the break-even elasticity of 0.77 for teenagers, 0.87 for adult males, and 0.75 for adult females. While it is impossible to give more than an upper-bound estimate for changes in coverage because coverage obviously cannot be expanded if it is universal, increases in coverage are always slightly less beneficial to workers than increases in the minimum at each elasticity.

Impact of Minimum Wages on the Wage Structure

The preceding theoretical analysis asked what would happen to low-wage workers if their real wage rates were increased. But even asking this

question requires assessing the degree to which the government can alter the wage distribution in the first place. There are several reasons why the government's influence on relative wages may be limited. On one side, spillovers to the uncovered sector or even noncompliance with the law might prevent low wages from rising much as the minimum is increased. On the other, changes in the minimum may force up other wages so much—in emulation of minimum increases by higher-wage unions or from Walrasian demand and supply adjustments—that rather than alter the wage structure they simply raise overall wage and price levels enough to nullify the increase in the minimum. In this section I try to deal with both matters from a more empirical standpoint.

NONCOMPLIANCE AND PARTIAL COVERAGE

The first thing turned up by any examination of data is that the wages of a large number of workers are below the legislative minimum. This point is illustrated in tables 2 through 4, which are based on U.S. Bureau of the Census tabulations of answers to the supplemental questions asked each May in conjunction with the regular monthly Current Population Survey. This information on usual hourly wage rates is available beginning only in 1973; and since the 1974 survey week started just twelve days after the minimum wage was increased (when many workers might not yet have realized it) the tables give information only for 1973 and 1975.[14]

The first line of table 2 gives the simple percentages of the work force receiving less than the minimum wage of $1.60 per hour in 1973 and $2.10 per hour in 1975. In both years this value is only 2 percent for adult males working full time; it reaches a peak of about 30 percent for teenagers on part-time work. Overall, from 6 to 7 percent of the labor force appears to work at subminimum wages. Although this seems low enough to be trivial, such an impression would be far from the truth.

14. U.S. Bureau of the Census, unpublished tabulations from the May 1973 and May 1975 supplements to the Current Population Survey. The CPS tabulates both actual and usual hourly earnings. The concept used here, usual hourly earnings, is either taken from or consistent with answers to questions on usual weekly earnings and usual weekly hours, and covers the entire labor force except for nonrespondents. In 1974, answers to this set of questions were given by about 61.2 million workers (after the sampling weights were applied). For some purposes, it would be better to confine the data on hourly wage rates to people paid that way; that series is called actual hourly earnings and is available for 32.1 million workers in 1974.

Table 2. Number and Percent of Workers Making Less than Minimum Wages, and Minimum as Percent of Median, Selected Demographic Groups, 1973 and 1975[a]

Demographic group and working status	Making less than minimum				Minimum as percent of median wage	
	1973		1975			
	Number (thousands)	Percent of total employment	Number (thousands)	Percent of total employment	1973	1975
All workers	4,127	6.69	3,835	6.19	46.2	52.2
Teenagers	1,253	22.33	1,205	21.98	82.9	94.2
Full time	241	10.90	253	11.59	70.8	78.7
Part time	1,012	29.76	953	28.87	90.9	98.1
Adult males	877	2.62	850	2.56	36.0	40.2
Full time	642	2.04	646	2.08	35.6	39.6
Part time	234	11.01	203	9.49	53.3	63.6
Adult females	1,997	8.83	1,781	7.65	56.8	64.0
Full time	1,073	6.33	924	5.40	54.2	60.7
Part time	925	16.31	857	13.87	71.1	76.4

Sources: U.S. Bureau of the Census, unpublished tabulations from the May 1973 and May 1975 supplements to the Current Population Survey. Details may not add to totals due to rounding.

a. The minimum wage was $1.60 per hour in 1973 and $2.10 in 1975.

The obvious reason that the percentage of workers making subminimum wages appears small is that the percentage of all workers making low wages is relatively small. For adult males working full time, for example, the minimum is only from 35 to 40 percent of the median and most of the labor force is unaffected by minimum wages; looking simply at the percent of workers below the minimum will greatly understate the importance of incomplete coverage or compliance. The same understatement applies to other groups, but to a lesser degree because the minimum is higher relative to the median and there are fewer unaffected workers.

A way to adjust for this problem is to present the percentage of low-wage workers making less than the minimum, as in table 3. Then incomplete coverage is seen to be a much more important phenomenon. The table inverts the ratio and now gives the number of workers in the minimum-wage class ($1.60 to $1.80 per hour in 1973, $2.00 to $2.25 per hour in 1975) and that number as a percentage of the cumulative portion of

Table 3. Number of Workers in Minimum-Wage Class, and Workers in the Class as a Percent of Cumulative Frequency up through That Class, Selected Demographic Groups, 1973 and 1975[a]

Demographic group and working status	*1973*		*1975*	
	Number (thousands)	*Percent of cumulative frequency*	*Number (thousands)*	*Percent of cumulative frequency*
All workers	3,045	42.5	5,444	58.7
Teenagers	1,071	46.1	1,637	57.6
Full time	210	46.6	422	62.5
Part time	861	46.0	1,215	56.0
Adult males	488	35.8	1,059	55.5
Full time	341	34.7	703	52.1
Part time	147	38.6	356	63.7
Adult females	1,486	42.7	2,748	60.7
Full time	918	46.1	1,488	61.7
Part time	568	38.0	1,260	59.5

Source: Same as table 2.
a. Minimum-wage class was $1.60–$1.80 in 1973 and $2.00–$2.25 in 1975.

workers in all wage classes up to the minimum class (all up to $1.80 per hour in 1973 and all up to $2.25 per hour in 1975). All high-wage workers who would not be affected by the minimum are kept out of the comparison.

The remarkable revelation of table 3 is that, when viewed relative to low-wage workers, coverage or compliance is both surprisingly narrow and surprisingly constant across groups. If answers to the survey can be believed, only 43 percent of all low-wage workers were in the minimum-wage class in 1973, and the ratio for any group was never below 35 or above 47. Even these percentages may tend to overstate the genuine coverage or compliance because they record in the numerator many workers who would have gotten the minimum in any case and thus were not truly part of the coverage or compliance universe. This fact could explain the paradoxical finding that the percentage is lower for adult males on full time, of whom there would be fewer such workers. More strikingly, as the minimum is increased relative to the median, as it was in 1975, the number of such "free riders" might be expected to rise, and hence all percentages to rise as they

Table 4. Number of Workers in Minimum-Wage Class and Workers in the Class as a Percent of Cumulative Frequency up through That Class, Selected Industries, 1973 and 1975[a]

Industry and working status[b]	*1973*		*1975*	
	Number (thousands)	*Percent of cumulative frequency*	*Number (thousands)*	*Percent of cumulative frequency*
		Full coverage		
Mining and manufacturing	430	63.6	672	77.9
Full time	356	68.9	532	80.6
Part time	74	46.5	139	68.8
Transportation	49	41.5	89	54.9
Full time	28	38.9	52	54.7
Part time	22	46.8	37	56.1
Construction	46	47.4	97	64.2
Full time	33	50.0	64	64.0
Part time	12	41.4	33	62.3
		Expanded coverage		
Retail trade	1,192	45.7	2,121	59.4
Full time	453	44.7	856	60.0
Part time	739	46.3	1,265	58.9
Public administration	50	41.7	87	63.5
Full time	23	43.4	50	65.8
Part time	27	40.3	37	60.7
Private household services	80	9.0	266	29.7
Full time	22	7.2	26	11.7
Part time	58	10.0	240	35.6

Source: Same as table 2. Details may not add to totals due to rounding.

a. Minimum-wage class was $1.60–$1.80 in 1973 and $2.00–$2.25 in 1975.

b. The percentage of employment covered throughout was about 97 for mining and manufacturing, 98 for transportation, and 99 for construction; for retail trade, about 64 in 1973, 69 in 1975; for public administration, about 41 in 1973 and 100 in 1975; for household services, zero in 1973 and about 73 in 1975. See Peyton Elder, "The 1974 Amendments to the Federal Minimum Wage Law," *Monthly Labor Review*, vol. 97 (July 1974), p. 35.

in fact do.[15] Thus a proper interpretation of the information in table 3 is that in 1973 the minimum wage was no more than 43 percent effective and

15. A less elegant, but possibly better, reason for the rise in this ratio is that in 1975 the lower boundary of the minimum-wage class was $0.10 below the actual minimum wage. A very slight underestimate of gross wages by a large number of workers could also account for the rise in the compliance rates. But even this estimate leaves the proportion of covered workers making the minimum well below one.

in 1975 it was no more than 59 percent effective. Whatever the case, the minimum-wage law is far from universally effective—actually raising the wages of about half of all low-wage workers.

Two possible reasons could explain why so many workers make subminimum wages: incomplete coverage, a phenomenon already discussed from a theoretical standpoint, and simple failure to comply with the law. Orley Ashenfelter and Robert Smith have dealt with the latter problem, arguing that at least for employers accused for the first time and not convicted of falsifying data, penalties for noncompliance are probably lower than the cost of paying the minimum wage, an anomaly that certainly plagues compliance officers.[16] If noncompliance is the basic problem, coverage ratios should differ little between legally covered and noncovered industries (with the same underlying wage distribution). If incomplete coverage is the problem, there should be a difference.

This matter is investigated with the aid of table 4, which gives the same coverage statistics for three industries that were virtually completely covered in both 1973 and 1975 and three in which coverage expanded significantly. For the fully covered industries—mining and manufacturing, transportation, and construction—compliance ratios are again low in both years but do improve between 1973 and 1975, presumably again because of the larger number of free riders or because of the reduction in the bottom bracket of the minimum-wage class in this categorization below the actual minimum wage.[17] To be sure, the fact that the ratio in manufacturing—a very large industry with high wages and hence proportionately fewer free riders—is above the national average indicates that the minimum wage must be having some impact on the wage distribution. But this impact is a good deal less than might be imagined. For one thing, compliance rates in fully covered industries like transportation and construction are not very different from those in industries that are partially uncovered like

16. Orley Ashenfelter and Robert Smith, "Compliance with the Minimum Wage Law (Progress Report)," Technical Analysis Paper 19A (U.S. Department of Labor, Office of the Assistant Secretary for Policy, Evaluation and Research, April 1974; processed).

17. Ashenfelter and Smith give compliance ratios based on actual hourly earnings in fully covered industries in 1973 that are slightly above that given in the table for manufacturing. They do not report estimates for years other than 1973 or separately for partially covered industries.

Just before this paper was typeset, Fred Siskind showed me compliance-ratio estimates from the newly available data for 1976. In line with my free-rider prediction, most ratios have slipped right back to their 1973 levels.

retail trade.[18] Only in the remaining incompletely covered industry, private household services, is the percent of noncoverage appreciably below the national average, and even here it did not rise much more than in the other industries despite the extension of coverage to most of that industry by the 1974 minimum-wage amendments. Again, the message is that a very high percentage of low-wage workers make subminimum wages, and now it can be added that industrial variations in the percentage of low-wage workers covered seem to be only modestly influenced by whether or not the industry is covered by the legislation.

What this surprising degree of noncoverage or noncompliance implies is another question, one that can only be speculated on here. It is always possible that people simply do not know what they get paid, though Ashenfelter and Smith have reproduced essentially the same results from establishment data, which seems to rule out that possibility.[19] Bearing out those who favor more government intervention, it could mean widespread ignoring of the minimum-wage law and point to the need for bigger compliance staffs and more severe penalties for violations. Or, for those who favor less government intervention, it could emphasize the inherent difficulty the government has in enforcing even a relatively straightforward policy like the minimum wage. Employees may simply be agreeing to take subminimum wages out of fear of losing their jobs, laws to the contrary notwithstanding. In any case, the minimum is simply less of a force for good or evil than people have believed.

IMPACT ON HIGHER WAGES

With this demonstration that minimum-wage laws have much less impact on low wages than might be expected, the next question is whether the minimum is attenuated even further by consequent changes in wage rates above the minimum and then prices. This could happen either because

18. Even though the compliance ratios are similar for fully covered transportation and construction and partially covered retail trade, the proportion of low-wage workers in the first two industries is so much lower than that in the last that ambiguities regarding the definition of the industry or its coverage are more likely to distort the comparison.

19. Ashenfelter and Smith, "Compliance." For other evidence that the CPS household survey wage data agree fairly well with establishment data, see Paul O. Flaim, "Earnings Data from the CPS: New Collection Efforts and Some Findings" (paper presented at the 1976 annual meeting of the American Statistical Association; processed).

unions and other groups above the minimum emulate the wage increases stipulated in the law, or through a more traditional demand-supply route following substitution by employers away from low-wage labor toward skilled labor.

The matter can be crudely investigated by seeing whether any extraordinary increases occur in overall wage levels subsequent to the increase in the minimum, and then comparing such changes with the implied direct impact of the change in the minimum. If the direct impact can account for all of the overall incremental changes, other wages are not emulating the minimum increase; if not, there is some emulation.

The first step is relatively straightforward: to see whether changes in the minimum can help explain changes in overall wage rates. Table 5 presents some Phillips-curve equations of the sort recently estimated by Michael Wachter.[20] The first equation is the one given in Wachter's paper (his equation 5.3), and the second is that with his Almon lag on prices shortened from twenty-four to seventeen quarters and made into a polynomial of slightly lower degree. In all respects, this equation is indistinguishable from Wachter's own. The third equation adds a four-quarter Almon lag on the basic minimum wage and finds the impact coefficient to be 0.027 with a *t*-ratio of 3.7, the second-period coefficient to be barely positive and insignificant, and all coefficients lagged more than one period to be very slightly negative and extremely insignificant. Attempts to impose a longer lag on the minimum-wage variable are not shown here but had similar outcomes. The fourth and fifth equations then drop the Almon lag on the basic minimum and simply include the current value and a one-period lag —once with *UGAP* lagged, once without—with essentially similar results.

Those who are motivated by the quest to reduce the noise in the Phillips curve should note that minimum wages do work as a variable: the impact coefficient is consistently around 0.028, the *t*-ratio is nearly 4, the standard error is cut by 10 percent, and the $\bar{R}^2$ is raised by 5 percent. What works, however, is the current-period impact: it seems impossible to find significant follow-on effects of lagged minimum wages. This suggests that any substantial emulation effects are not long delayed, which seems plausible because increases in the minimum are well-advertised in advance. To examine the matter further, I ask whether an impact coefficient of 0.028,

20. Michael L. Wachter, "The Changing Cyclical Responsiveness of Wage Inflation," *BPEA, 1:1976*, table 5.

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Table 5. Equations Explaining the Growth of Private Nonagricultural Straight-Time Hourly Wages ($\partial W/W_{-1}$), Quarterly, 1954–75

Equation	Variable[a]							Regression statistic	
	Constant	UGAP	$UGAP_{-1}$	$\Sigma v_i \frac{\partial P_{-i}}{P_{-i-1}}$	$\frac{\partial W_e}{W_{e-1}}$	$\frac{\partial W_{e-1}}{W_{e-2}}$	$\Sigma v_i \frac{\partial W_{e-i}}{W_{e-i-1}}$	$\bar{R}^2$	Standard error
5.1	−0.24	3.23	...	1.07	...	...	...	0.73	...
	(1.4)	(4.6)		(7.6)					
5.2	−0.11	3.10	...	0.89	...	...	...	0.73	0.25
	(0.9)	(6.9)		(9.1)					
5.3	−0.18	3.08	...	0.95	0.027	0.005	−0.002	0.77	0.23
	(1.4)	(7.3)		(10.0)	(3.7)	(0.9)	(0.2)		
5.4	−0.18	3.08	...	0.95	0.028	0.004	...	0.77	0.23
	(1.5)	(7.4)		(10.3)	(3.8)	(0.5)			
5.5	−0.17	5.01	−2.07	0.98	0.028	0.003	...	0.77	0.23
	(1.4)	(3.3)	(1.3)	(10.3)	(3.7)	(0.4)			

Source: From, or variation of equations from, Michael L. Wachter, "The Changing Cyclical Responsiveness of Wage Inflation," *BPEA, 1:1976*, table 5. The numbers in parentheses are *t*-ratios.

a. *UGAP* is the usual inverse of the unemployment rate but this inverse is multiplied by the estimated normalized rate of unemployment to allow the rate of wage inflation to increase as the normalized unemployment rate rises relative to the actual rate, and by 0.25, a scaling factor; *P* is the rate of change in the nonfarm deflator; W_e is the minimum-wage variable.

or a long-run coefficient of 0.032, is more than would be accounted for simply by the direct impact of increases in the minimum.

Again the CPS wage distributions provide the relevant information. On May 1, 1974, the minimum was increased by 25 percent from $1.60 to $2.00—a change that would be estimated to raise the overall wage bill by (0.032)(25) = 0.8 percent, according to the equations in table 5. After adjustment for incomplete coverage and noncompliance and for 1974 underreporting, about half of this impact could be directly accounted for by the change in the minimum, with the remainder due to emulation. (The calculations are given in footnote 21.) There is, in other words, a "multiplier" of 2 for the impact of minimum wages on the overall wage bill.

This multiplier is high or low, depending upon the implications one is examining. On one side, even though the multiplier is 2, the minimum wage still has a substantial effect on the relative wage structure. The reason is that changes in the minimum wage affect the bottom tail of the wage distribution, where their weight in terms of both number of workers and dollars of wage bill is very small. Hence very large changes in low wages have the same effect on the overall wage bill as do much smaller percentage increases in the fatter part of the wage distribution. In the 1973–74 case, for example, all workers covered prior to the 1967 amendments who were previously making $1.60 per hour received 25 percent increases, and even if all of the indirect effect had been confined exclusively to those originally in the $2.00–$2.50 bracket, it would have amounted to only a 3.5 percent increase for those workers.[21] The multiplier is high, but so is the impact on relative wages in the bottom part of the wage distribution. In line with the preceding theory, the multiplier of 2 could also imply that uncovered wages are rising and uncovered workers better off.

But this reasoning suggests that minimum wages could, if they get very high, have important effects on overall wages and prices. Historically, minimum wages have not had such effects precisely because the minimum has been kept in the low part of the wage distribution, affecting a large share of neither workers nor wage income, and getting a relatively low coefficient

21. These calculations were done as follows: Between 1973 and 1974, the percent of workers in the $1.60–$1.80 class fell by 2.56 points and the percent in the $1.80–$2.00 class fell by 1.25 points. If the former group received a $0.35 increase, the latter a $0.10 increase, and all other workers no direct increase, the implied change in overall wage income would be 0.25 percent, or 0.4 percent after adjusting for 1974 underreporting. Computing the dollar effect of this change and spreading it over the $2.00–$2.50 class gives a 3.5 percent increase for those workers.

in a time-series regression. Had the minimum not been kept so low, its impact on overall wages and prices would grow much more than proportionately. In 1974, for example, the 25 percent increase in the minimum to $2.00, 54 percent of the median wage, was seen to raise the wage bill directly by only 0.4 percent and indirectly by another 0.4 percent. Had the minimum been increased to $3.00, 81 percent of the median wage, the direct impact on the wage bill alone would have been more like 6.0 percent, even with a generous allowance for noncoverage and noncompliance. Whether the indirect effect would have again doubled the direct effect is highly uncertain; but even if it did not, a change in overall wage, and presumably price, levels of this magnitude presents an important drawback to such a large change in the minimum.[22] If nothing else, the adaptive-expectations terms in the wage-setting equations estimated above are high enough that this supposed one-shot change in the overall price level would be converted into a nearly permanent one-shot change in the *rate* of price inflation.[23]

Impact on Employment

The next question concerns the employment impact of changes in the wage structure. In terms of the preceding theory, is the wage elasticity of demand for low-skilled labor (η) small enough that affected workers are better off as a result of an increase in the minimum wage?

The literature on this topic, for employment in general and for the minimum wage in particular, is so voluminous that there are already a fair

22. The more the hypothetical change deviates from the actual change, the more difficult it becomes to determine exactly what would happen. These calculations first of all assume no employment effects, a matter taken up in the next section. They also assume that noncompliance ratios in the $2.00–$3.00 range are similar to those now experienced in the below-$2.00 range. The whole issue, of course, suggests that the coefficient of the minimum is nonlinear, depending on where in the wage distribution the minimum is. In principle, I could have experimented with forms to test this nonlinearity, but in practice the minimum has remained in such a narrow band relative to the median that I did not bother.

23. If the steady-state coefficient of the lagged price-increase terms in the Phillips-curve equations of table 5 equals one, such would be the case. As can be seen, they are close enough to provide only cold comfort to those wishing to raise the minimum substantially. On the other hand, the fact that prices rise at a steady rate need not imply that the real minimum would fall to its former level: What is to prevent subsequent changes in the minimum from keeping up with the inflation the first change may have started and subsequent changes may have abetted? As usual, inflation is a giant merry-go-round.

number of surveys of it. Daniel Hamermesh has recently surveyed fifteen papers that attempt to estimate how overall employment demand depends on the relative price of capital and labor, and finds elasticities of substitution ranging from a low value of 0.15 to a high value of 1.0, with a long-run median estimate of close to 0.75.[24] Although the two distributions overlap somewhat, these elasticities are generally below the relevant break-even elasticities in table 1, suggesting that low-wage workers benefit from an increase in the minimum wage.

Studies that have tried to estimate the effect of minimum wages more directly have until now focused almost exclusively on teenagers. These studies most commonly estimate time-series regressions of the form

$$\ln \frac{E}{N} = g\left(\ln \bar{U}, \ln \frac{cW_c}{\overline{W}}, Z\right), \tag{13}$$

where E is usually teenage employment, N is the teenage population, $\bar{U}$ is the adult unemployment rate, $\overline{W}$ is average wages in the private sector, and Z might be a variety of other variables. The coefficient of $cW_c/\overline{W}$ can be interpreted as the minimum-wage elasticity of demand for the whole group of teenagers, and it usually comes out somewhere between -0.05 and -0.25.[25]

24. Daniel S. Hamermesh, "Econometric Studies of Labor Demand and their Application to Policy Analysis," *Journal of Human Resources*, forthcoming, table 3. He presents $\sigma(1 - s)$, where s is labor's share of output and σ is the elasticity of substitution with respect to real wages with the real price of capital held constant. The elasticity is multiplied by $(1 - s)$ because Hamermesh makes price levels endogenous and assumes that an increase of x percent in the money wage causes an sx percent increase in prices, and raises real wages by only $(1 - s)x$ percent. For my purposes the passthrough to product prices will normally be very small, so I simply used the estimates of σ summarized in the paper.

For those who take R. G. D. Allen's work as their bible on this matter, the case I am referring to can be found in Allen's *Mathematical Analysis for Economists* (Macmillan, 1938), p. 373, the footnote in which his $\partial p/\partial p_a = 0$.

25. See the Goldfarb summary, "Policy Content," p. 266. Recent studies not included in Goldfarb's survey article have estimated the following employment elasticities for teenagers: Welch, "Minimum Wage Legislation," as corrected by Frederic B. Siskind, "Minimum Wage Legislation in the United States: Comment," Technical Analysis Paper 4A (U.S. Department of Labor, Office of the Assistant Secretary for Policy, Evaluation and Research, May 1976; processed), p. I-2, −0.05; Mincer, "Unemployment Effects," p. S104, −0.25; Ragan, "Minimum Wage Legislation," pp. 35–36, −0.20; and Terence F. Kelly, "Youth Employment Opportunities and the Minimum Wage: An Econometric Model of Occupational Choice," Working Paper 3608-1 (Urban Institute, n.d.; processed), p. 23, −0.18.

In "The Minimum Wage, Teenage Unemployment, and the Business Cycle," *Western*

Applying any of these results to the analysis of the break-even elasticity offered above poses several problems. The most glaring is that even for teenagers, the dependent variable includes a large number of workers not working at low wages, which would dilute the estimated elasticity for two reasons. The first is that many workers who get better than low wages would be simply unaffected by changes in the minimum, and some adjustment in the coefficient must be made to determine its meaning solely for the low-wage workers in the sample. But even that adjustment may not be enough. The second reason is that some substitution presumably may occur in *favor* of the high-wage workers in the sample, at least if minimum wages do not immediately force up these higher wages. Hence simply weighting up the estimated time-series elasticity by the inverse of the proportion of low-wage teenagers will yield an underestimate of the actual elasticity. But for what it is worth, weighting the standard estimates does lead to an elasticity for low-wage teenagers of about 0.4 (0.17/0.45, where 0.17 is the average elasticity of the studies cited in footnote 25, and 0.45 is the average proportion of low-wage teenagers during the historical period), still below the lower bound of the break-even elasticity for teenagers. A more direct cross-section estimate by Arnold Katz, which is not diluted by the inclusion of unaffected workers, comes up with an elasticity for teenagers of 0.6, still below the break-even level but closer.[26]

A second problem, or really gap, in the previous empirical work is that it focuses almost entirely on teenagers, who now constitute only about 30 percent of all low-wage workers (see table 3). Adult males (20 percent) and females (50 percent) are given almost no attention. The reason for this gap is easy to understand, for even though most low-wage workers are adults, the dilution problem is much greater for adults. Philip Cotterill has made one of the few attempts to deal with the problem, by excluding high-wage workers in a cross-section analysis for adults, and he finds elasticities that average 0.76, now just about equal to the lower bound of the break-even elasticity.[27]

Economic Journal, vol. 10 (December 1972), pp. 414–27, Michael C. Lovell has analyzed time-series studies that use teenage unemployment as the dependent variable and has also generally found that minimum wages do not significantly raise unemployment.

26. Arnold Katz, "Teenage Employment Effects of State Minimum Wages," *Journal of Human Resources*, vol. 8 (Spring 1973), pp. 250–56.

27. Philip Cotterill, "The Elasticity of Demand for Low-Wage Labor," *Southern Economic Journal*, vol. 41 (January 1975), pp. 520–25.

There are other important problems that, as far as I know, nobody has dealt with. One is that when total employment is the dependent variable, the coverage variable c should not be combined with the basic minimum in the way described in equation 13. The discussion above of equation 5 indicates that this specification is inappropriate and may bias η downward. Another problem is that in all existing studies of employment or unemployment, whether based on time-series or cross-section data, the dependent variable is numbers of workers. But what if the minimum wage closes or opens up more full- or part-time employment? In terms of the above theory it might be more appropriate to take full-time employment as employment, and to consider part-time employment—with involuntarily lower hours, lower wages, and presumably more jobs that are characteristic of the secondary labor market—as essentially no different from unemployment. It would then be better to estimate separate regressions explaining full- and part-time employment for the three demographic groups.

I have tried to estimate time-series regressions that deal with each of these complications. The regressions are patterned after the inverted CES (constant elasticity of substitution) production-function model of labor demand, which makes employment a positive function of output and a negative function of real wages. Applied to minimum wages, this pattern leads to regressions of the form

$$\ln E_i = g\,[\bar{L}(\ln Q), \bar{L}(\ln W_c/P), t, D_{cov}, \ln S\,], \tag{14}$$

where

E_i = civilian nonfarm employment of 16–19-year-olds, adult males, and adult females, with each group broken down by full- or part-time status[28]

Q = civilian nonfarm real output (that is, total output excluding farm and military value added)

P = the price deflator for civilian nonfarm real output

28. This breakdown has been published only since 1963. In fact, it is available only for total civilian employment with no disaggregation into agricultural and nonagricultural sectors. Thus, the dependent variable in the part-time employment regressions is total part-time, including a small amount of agricultural part-time employment. The full-time nonagricultural employment variable is formed by subtracting that part-time series from total nonfarm employment, thus understating full-time nonagricultural employment by the amount of part-time agricultural employment. The series appears in *Employment and Earnings*, vol. 19 (February 1973), p. 154, and vol. 22 (February 1976), pp. 149, 169. Employment must be derived by subtracting unemployment from the civilian labor force in the latter periodical.

W_c = the basic minimum wage

t = a time trend that serves as a proxy for productivity and trend changes in employment or its demographic composition

D_{cov} = a dummy for changes in coverage, as described in more detail below

S = a supply-constraint variable, described in detail below.

The variable $\bar{L}$ indicates a four- or six-quarter Almon distributed lag, whichever length appeared to fit best. This may seem a short lag for factor-substitution analysis; but again, since changes in the minimum are advertised in advance, it is presumably consistent with a slower and more reasonable pace of factor substitution. The equations for total employment were usually estimated with quarterly time series for the full 1948–75 period, but those for full- and part-time employment could be estimated only for the period starting in 1963, the first year for which this breakdown was available.

Since there were three legislative coverage changes in the period (1961, 1967, and 1974), in each case extending the minimum to a different part of the wage distribution and no doubt complied with imperfectly, I have simply used dummy variables, D_{cov}, for the three changes. Unfortunately, all had very small, usually positive, coefficients and I left them in the final specification only if they did have the anticipated negative effect on total employment. For teenagers and adult females I also included supply-constraint variables: for the first, all teenagers less those in the military as a proportion of the total noninstitutional population of teenagers; for the second, the number of children aged 1 to 5 as a proportion of the total noninstitutional population of adult females. The first should have a positive effect on teenage employment and the second should have a negative effect on adult female employment, reflecting child-raising responsibilities.[29]

The equations are given in tables 6, 7, and 8 for teenagers, adult males, and adult females, respectively. All use an autoregressive transformation: the computed value of ρ is shown in the last column. Equation 6.1 explains total employment with the basic form of equation 14. Since the coefficients of output vary widely—as expected, being highly sensitive to cyclical changes in output for teenagers but not for adults—equation 6.2 is designed

29. The teenage supply variable also deducted half of those enrolled in school from the numerator when it was used to explain full-time employment. In principle, each supply-constraint variable should also be in the other equations (if there are more employed teenagers, adult employment would be lower), but this seemed to be going too far.

to determine the sensitivity of the coefficient on the minimum wage to changes in the output coefficient by constraining the latter to equal unity (as it would in a production function based on constant returns to scale). Equation 6.3 then splits the trend and cycle in output differently by simply using time and a close proxy to the Perry weighted unemployment rate, U, as independent variables. Equation 6.4 focuses more directly on the composition of unemployment by using total employment (teenagers plus adults), E, as the independent variable along with time. Equation 6.5 reestimates equation 6.1 over the shorter period used in the full-time–part-time breakdowns. Equations 6.6 through 6.9 give the four basic forms for full-time employment and equations 6.10 through 6.13 give them for part-time employment. The equations in tables 7 and 8 have parallel structures.

The important coefficients in these tables are those for minimum wages, and they are generally affected little by changes in the specification of the independent variables, though greatly by the choice of the dependent variable. Information on these elasticities is summarized in table 9. For each group the first row of the panel reproduces the low-wage break-even brackets given in table 1. The next row converts these break-even elasticities into the implied elasticity for total employment and also gives, in the last column, the elasticity estimated from the total employment equation. The reduced-form solution of text equation 5—found by inserting text equation 7—indicates that the coefficient of ln W_e is approximately η if the sample is confined to low-wage workers. Hence, to make a proper comparison between the estimated elasticities and the break-even values, I have multiplied the break-even values by $F(W_e)$, the proportion of low-wage workers in the dependent variable during the period 1973–75, and then compared this band with the average of the minimum-wage elasticities for total employment in equations 1 through 4 of tables 6, 7, or 8. The third row then conducts precisely the same comparison in terms of *full-time* employment, under the assumption that this concept might be a better indication of true employment.

The results in table 9 give one ambiguous but probably negative verdict on increases in the minimum wage (for teenagers), one fairly clear positive verdict (for adult males), and one very clear positive verdict (for adult females). For teenagers the average adjusted total employment elasticity is below the break-even range, as it is in other studies; teenagers appear to be better off after an increase. Such appearances could be quite deceiving,

Table 6. Employment-Demand Equations for Teenagers, Quarterly, 1948–75 for Total, 1963–75 for Full- and Part-Time[a]

Type of employment and equation	Variable								Regression statistic		
	Constant	$\Delta \ln W_0^b$	$\Delta \ln Q^c$	$\ln E^d$	$\ln U^e$	t^f	$D61^g$	$\ln S^h$	R^2	Standard error	Coefficient of first-order autocorrelation ρ
Total											
6.1	−1.90	−0.099	1.59	...	...	−0.007	−0.010	0.14	0.995	0.022	0.97
	(1.2)	(1.4)	(6.1)			(1.2)	(0.3)	(0.3)			
6.2	1.74	−0.087	1.00	...	...	−0.002	...	0.11	0.937	0.024	0.97
	(8.7)	(1.2)				(1.3)		(1.0)			
6.3	7.70	−0.088	...	...	−0.140	0.007	−0.005	0.23	0.994	0.023	0.95
	(45.6)	(1.3)			(6.0)	(6.6)	(0.1)	(2.4)			
6.4	−28.30	−0.101	...	3.32	...	−0.008	...	0.20	0.996	0.018	0.83
	(10.3)	(2.1)		(13.0)		(6.2)		(3.4)			
6.5[i]	−2.17	−0.131	1.61	...	...	−0.003	...	0.04	0.993	0.017	0.80
	(1.7)	(1.9)	(7.6)			(1.3)		(0.3)			
Full time											
6.6	−4.21	−0.514	1.88	...	...	−0.008	...	0.13	0.951	0.036	0.59
	(2.1)	(2.2)	(5.7)			(2.3)		(0.4)			
6.7	1.07	−0.418	1.00	...	...	0.001	...	0.12	0.606	0.038	0.69
	(1.7)	(1.6)				(1.0)		(0.3)			
6.8	7.23	−0.672	...	...	−0.214	0.009	...	0.28	0.952	0.035	0.31
	(15.5)	(3.1)			(6.6)	(5.6)		(1.0)			
6.9	−31.68	−0.381	...	3.80	...	−0.013	...	0.24	0.945	0.038	0.64
	(3.7)	(1.5)		(4.5)		(2.5)		(0.7)			
Part time											
6.10	−3.63	0.416	1.62	...	...	−0.001	...	0.09	0.979	0.032	0.64
	(1.3)	(2.0)	(4.9)			(0.1)		(0.2)			
6.11	0.27	0.374	1.00	...	...	0.005	...	0.01	0.899	0.033	0.77
	(0.4)	(1.4)				(2.4)		(0.3)			
6.12	6.15	0.302	...	...	−0.185	0.013	...	0.27	0.981	0.031	0.66
	(9.7)	(1.4)			(5.2)	(7.2)		(0.8)			
6.13	−29.36	0.393	...	3.31	...	−0.005	...	0.22	0.930	0.032	0.74
	(3.4)	(2.0)		(4.1)		(1.1)		(0.6)			

Sources: Dependent variable—*Employment and Earnings*, vol. 19 (February 1973), pp. 151–52, 155, and vol. 22 (February 1976), pp. 149, 153–54, 169 (employment must be derived by subtracting unemployment from the civilian labor force in the Texas particularly, seasonal-wage data—"Statement of Abraham Weiss before the Subcommittee on Labor Standards of the House Education and Labor Committee (U.S. Department of Labor, November 8, 1973, processed), output and price deflator—U.S. Department of Commerce, supply-constraint variables (5)—*Economic Report of the President, January 1975* and *Midyear Report of the President, 1974* (quarterly data interpolated from annual values).

a. The logarithm of nonfarm civilian employment in the relevant category is the dependent variable. The numbers in parentheses are *t*-ratios.

b. Four-quarter Almon lag on the basic minimum, W_0, in real terms. Steady-state coefficient is shown.

c. Four-quarter Almon lag on real nonfarm civilian output (Q), with steady-state coefficient shown. When the coefficient is constrained to equal one (equations 6.2, 6.7, and 6.11), the dependent variable is divided by output and the percentage growth in output is one independent variable.

d. E is fat-tail employment for all three demographic groups.

e. U is the overall unemployment rate adjusted for changing demographic composition, a close proxy to the Perry weighted rate (see Wachter, "Changing Cyclical Responsiveness," p. 128).

f. Time trend, as detailed in the text.

g. Dummy for the 1961 increase in coverage, omitted if it had a positive sign. Dummies for increases in coverage in 1967 and 1974 worked even less well and were excluded altogether.

h. For total and part-time employment S has the number of teenagers less the number in the armed forces in the numerator and the noninstitutional teenage population for the denominator. For full-time employment one-half the number enrolled in school is also subtracted from the numerator, for all cases it should have a positive sign.

i. Fit over the 1961–75 $\frac{1}{4}$ block.

Table 7. Employment-Demand Equations for Adult Males, Quarterly, 1948–75 for Total, 1963–75 for Full- and Part-Time[a]

Type of employment and equation	Variable							Regression statistic		
	Constant	$\Sigma \ln W_t$[b]	$\Sigma \ln Q$[c]	$\ln E$[d]	$\ln D$[e]	t[f]	$D61$[g]	R^2	Standard error	Coefficient of first-order autocorrelation ρ
Total										
7.1	8.01	−0.008	0.39	...	...	−0.001	−0.002	0.998	0.004	0.94
	(27.2)	(0.6)	(7.9)			(1.3)	(0.4)			
7.2	4.36	−0.078	1.00	...	...	−0.006	−0.007	0.998	0.010	0.92
	(222.5)	(2.8)				(15.6)	(0.4)			
7.3	10.44	−0.010	...	...	−0.011	0.003	−0.003	0.998	0.004	0.88
	(1292.8)	(0.9)			(10.3)	(23.9)	(0.6)			
7.4	2.30	0.012	...	0.75	...	−0.001	...	0.999	0.003	0.81
	(5.6)	(1.8)		(19.8)		(3.5)				
7.5[h]	8.50	−0.036	0.31	...	...	0.001	...	0.997	0.003	0.81
	(35.9)	(1.5)	(7.8)			(2.0)				
Full time										
7.6	8.50	−0.055	0.31	...	...	0.001	...	0.996	0.003	0.79
	(38.6)	(2.5)	(8.5)			(1.3)				
7.7	4.25	0.044	1.00	...	...	−0.005	...	0.992	0.008	0.97
	(54.8)	(0.6)				(7.3)				
7.8	10.41	−0.083	...	...	−0.033	0.003	...	0.996	0.008	0.72
	(784.5)	(4.0)			(9.1)	(37.8)				
7.9	2.76	−0.011	...	0.71	...	−0.001	...	0.998	0.002	0.72
	(4.7)	(2.6)		(12.9)		(2.8)				
Part time										
7.10	5.71	0.234	0.14	...	...	0.008	...	0.972	0.027	0.82
	(2.5)	(1.0)	(0.4)			(2.5)				
7.11	0.48	0.274	1.00	...	...	0.001	...	0.792	0.028	0.86
	(2.9)	(1.1)				(0.6)				
7.12	6.59	0.217	...	...	−0.021	0.010	...	0.973	0.027	0.82
	(43.8)	(1.0)			(0.5)	(8.9)				
7.13	−4.31	0.261	...	1.02	...	0.004	...	0.974	0.027	0.80
	(0.6)	(1.2)		(1.4)		(1.0)				

Sources: Same as table 6.

a. The logarithm of nonfarm civilian employment in the relevant category is the dependent variable. The numbers in parentheses are t-ratios.

b. Four-quarter Almon lag on the basic minimum, W_t, in real terms. Steady-state coefficient is shown.

c. Four-quarter Almon lag on real nonfarm civilian output (Q), with steady state coefficient shown. When the coefficient is constrained to equal one (equations 7.2, 7.7, 7.11), the dependent variable is divided by output and the percentage growth in output is one independent variable.

d. E is total employment for all three demographic groups.

e. D is the overall unemployment rate adjusted for changing demographic composition, a close proxy to the Perry weighted rate.

f. Time trend, as described in text.

g. Dummy for the 1961 increase in coverage, omitted if it had a positive sign. Dummies for increases in coverage in 1967 and 1974 worked even less well and were excluded altogether.

h. Fit over the 1963–75 period.

Table 8. Employment-Demand Equations for Adult Females, Quarterly, 1948–75 for Total, 1963–75 for Full- and Part-Time[a]

Type of employment and equation	Variable							Regression statistic		
	Constant	$\Sigma \ln We^{b}$	$\Sigma \ln Q^{c}$	$\ln E^{d}$	$\ln \bar{C}^{e}$	t^{f}	$\ln S^{g}$	R^{2}	Standard error	Coefficient of first-order autocorrelation ρ
Total										
8.1	8.00	0.031	0.30	...	...	0.004	−0.10	0.999	0.007	0.83
	(16.9)	(1.4)	(3.9)			(5.6)	(2.6)			
8.2	3.60	−0.060	1.00	...	...	−0.002	−0.05	0.975	0.012	0.92
	(13.3)	(1.6)				(3.1)	(0.5)			
8.3	9.75	0.028	...	...	−0.032	0.007	−0.08	0.999	0.007	0.83
	(88.4)	(1.3)			(4.8)	(26.3)	(2.0)			
8.4	−1.37	0.012	...	0.99	...	0.003	0.06	0.999	0.005	0.87
	(1.4)	(0.8)		(11.6)		(7.0)	(1.7)			
8.5[h]	9.49	−0.003	0.27	...	...	0.001	−0.50	0.998	0.006	0.29
	(25.3)	(0.1)	(8.2)			(1.1)	(5.5)			
Full time										
8.6	8.43	0.024	0.27	...	...	0.003	−0.25	0.997	0.005	0.32
	(15.0)	(0.7)	(6.7)			(2.4)	(1.9)			
8.7	4.72	0.061	1.00	...	...	−0.005	−0.47	0.886	0.010	0.95
	(3.5)	(0.6)				(1.5)	(1.2)			
8.8	9.99	−0.004	...	...	−0.031	0.006	−0.22	0.997	0.006	0.37
	(22.6)	(0.1)			(6.8)	(4.6)	(1.7)			
8.9	1.57	0.013	...	0.77	...	0.002	−0.17	0.998	0.005	0.33
	(1.5)	(1.6)		(9.5)		(1.7)	(1.6)			
Part time										
8.10	10.67	−0.085	0.28	...	...	−0.005	−1.38	0.985	0.019	0.37
	(5.6)	(0.7)	(2.1)			(1.3)	(3.1)			
8.11	4.28	−0.009	1.00	...	...	−0.006	−0.79	0.778	0.022	0.76
	(1.7)	(0.4)				(0.9)	(1.1)			
8.12	12.02	−0.100	...	...	−0.044	−0.001	−1.26	0.985	0.019	0.40
	(7.8)	(0.8)			(2.1)	(0.3)	(2.8)			
8.13	−1.22	−0.031	...	1.17	...	−0.006	−1.06	0.987	0.018	0.44
	(0.3)	(0.3)		(3.5)		(1.6)	(2.5)			

Sources: Same as table 6.

a. The log of hours of nonfarm civilian employment in the relevant category is the dependent variable. The numbers in parentheses are *t*-ratios.

b. Four-quarter Almon lag on the basic minimum, We, in real terms. Steady-state coefficient is shown.

c. Four-quarter Almon lag on real nonfarm civilian output (Q), with steady-state coefficient shown. When the coefficient is constrained to equal one (equations 8.2, 8.7, and 8.11), the dependent variable is divided by output and the percentage growth in output is one independent variable.

d. E is total employment for all three demographic groups.

e. $\bar{C}$ is the overall unemployment rate adjusted for changing demographic composition, a close proxy to the Perry weighted rate.

f. Time trend, as described in text.

g. S has the number of children aged 1–5 in the numerator and the nonlnstitutional population of females in the denominator. It should have a negative sign.

h. Fit over the 1963–75 period.

Table 9. Comparison of Break-Even and Estimated Elasticities of Labor Demand, Selected Demographic Groups, 1973–75 Period

Demographic group and working status	*Break-even elasticity*		*Estimated elasticity*
	Upper bound	*Lower bound*	
Teenagers			
Low-wage workers	1.13	0.77	...
Total employment	0.52	0.34	0.09
Full-time employment	0.29	0.20	0.50
Adult males			
Low-wage workers	1.54	0.87	...
Total employment	0.08	0.04	0.02
Full-time employment	0.06	0.03	0.03
Adult females			
Low-wage workers	1.35	0.75	...
Total employment	0.23	0.13	0.00
Full-time employment	0.18	0.10	−0.03

Sources: Low-wage workers, table 1; wage distribution for total and full-time employment, U.S. Bureau of the Census, unpublished tabulations from the May 1973 and May 1975 supplements to the Current Population Survey. Estimated elasticities for total employment are averages of minimum-wage coefficients (with sign changes) in equations 1 through 4 of tables 6 through 8; for full-time employment, equations 6 through 9 of the same tables were used.

The values for p, the probability of having a job in the covered sector, and r, the wage-income replacement rate for unemployment insurance and similar transfer programs, are from table 1; values of c are averages derived from the cumulative frequency percentages in table 3; $F(W_c)$ is the proportion of low-wage workers in the dependent variable for total employment, derived from the May 1973 and May 1975 supplements to the Current Population Survey; F is the proportion of low-wage workers in the dependent variable for full-time employment. The values used are:

	p	r	c	$F(W_c)$	
				Total	*Full time*
Teenagers	0.76	0.09	0.52	0.46	0.26
Adult males	0.92	0.33	0.46	0.05	0.04
Adult females	0.86	0.23	0.52	0.17	0.13

however, because the full-time employment elasticity is *above* the range, indicating that teenagers are worse off after an increase. What is happening, as can be seen more clearly in table 6, is that high minimum wages reduce full-time employment of teenagers substantially, forcing many of them into part-time employment. The net result is the relatively slight overall disemployment impact typically found in other studies.[30] If this is why disem-

30. For what it is worth, the overall employment elasticity for teenagers of 0.09 indicates that the 25 percent increase in the minimum in 1974 lowered teenage employment by 2.3 percent and raised the teenage unemployment rate by only 2 percentage points (even less if labor supply was affected). Moreover, minimum wages cannot explain rising teenage unemployment rates over time because the minimum wage is no higher relative to the median wage than it was in the mid-fifties (apart from changes in coverage, which are here found to be unimportant in influencing employment demand).

ployment is so slight, the most reasonable verdict is that teenagers have more to lose than to gain from higher minimum wages: they appear to be forced out of the better jobs, denied full-time work, and paid lower hourly wage rates; and all these developments are probably detrimental to their income prospects in both the short and the long run. If one of the goals of minimum-wage legislation is to eliminate sweatshop low-wage jobs, for teenagers the law appears to be counterproductive.

Again, for adult males, there is a noticeable increase in part-time employment, presumably mainly in the 20–25 and over-65 age brackets (the dependent variable is not published any more finely than for all male and female adults over 20, so this presumption cannot be tested). Even with the full-time employment equations, the average elasticity is only approximately equal to the lower bound of the break-even bracket, so a reasonable guess is that adult males benefit somewhat from an increase in the minimum.[31]

For adult females, the group that accounts for half of all low-wage workers, most estimated minimum-wage coefficients are not even negative, let alone large enough to be in the break-even range. Moreover, there is no substitution away from higher-wage, full-time employment toward part-time employment. To the contrary. A plausible, though untested, explanation might be that a higher minimum brings adult females from the part-time into the full-time labor force, forcing even lower-wage teenagers out into the part-time jobs that they have vacated. Whether it happens in just this way, the evidence suggests that adult females are the main beneficiaries of increases in the minimum wage. Can it be that George Meany is really a feminist?

Income Distribution

Up to this point I have followed the literature in discussing the impact of minimum wages on low-wage workers. But even though the main appeal of the minimum wage appears to be its effect on income distribution, its

31. Since this is a fairly close call, it may be well to review the biases: On the one hand, the lower bound for the break-even elasticity is biased downward because it ignores any value of leisure time and is computed only for the most risk-averse of workers. On the other hand, the actual estimate is biased downward too because it assumes no substitution in favor of high-wage adult males. Maybe somebody will be able to determine how it all nets out, but I can't.

impact on those with low family incomes has received almost no discussion. Are the low-wage workers being helped or hurt by minimum-wage legislation also in low-income families? Even casual reflection suggests many reasons why the correlation between an individual's wages and family income would not be perfect: irregular hours, low-wage secondary workers in high-income families, varying family sizes and numbers of earners per family, varying amounts of unearned income, and so forth.

Lack of data has accounted for lack of attention to the implications of wage policies for income distribution. There is now, however, a complete ongoing survey of both wage rates (the May supplement to the Current Population Survey) and family incomes (the March supplement), but no ongoing survey of *both* wage rates and family incomes for the same people. Because both surveys are tied to the CPS, which, in its regular monthly interviews, surveys the same household for four consecutive months, these two data sources could be merged; in fact, this has recently been done by the U.S. Department of Labor for 1973.[32]

The basic wage-family income matrices for adults and teenagers from this merged data tape are given in tables 10 and 11, respectively. Again, the correlations for the two groups differ markedly. For adults the correlation between low wages and low family incomes is not perfect, but fairly strong. The median family income for adult workers earning below $2.00 an hour in 1973 was $7,576 (a weighted average of the medians—$6,352 and $8,560—that appear in the last column in table 10), 1.77 times the poverty line for a family of four in 1972. The median family income for workers making more than $4.00 was $15,100, twice as high. About 23 percent of the low-wage workers were also in poverty status, but less than 2 percent of the high-wage workers were.[33] Even with this fairly strong correlation, however, 12 percent of the low-wage adult workers were in families with incomes over $15,000 and 25 percent were in families with incomes above the

32. The data file was prepared and supplied to me by Michael Barth, who is still using it for a similar analysis. Because the March income statement refers to income in the previous year, it is not quite correct to merge data for the same year, as was done. It would be more precise to merge the May 1973 data with the March 1974 data, though the merged sample would be only half as large.

33. This statement too is not quite precise because poverty should be defined in regard to family needs, which depend on the number in the household. Since that number is not included in these data, I have approximated poverty status by the number of workers with family incomes below $4,000, just slightly below the poverty line for a family of four in 1972.

median for the whole economy, indicating that minimum wages, wage subsidies, or any other policy aimed at benefiting low-wage workers will have some nontrivial "spillover" benefits for high-income families.

But for teenagers this spillover becomes a flood (table 11). Now, the median family income for low-wage teenagers is $12,900, *higher* than the median family income for high-wage teenagers by $1,400. Whereas less than 7 percent of low-wage teenagers are in poverty-line families, 10 percent of high-wage teenagers are. And fully 40 percent of low-wage teenagers are in families with incomes above $15,000.

These interesting differences are examined further in table 12. For each of the three basic groups—teenagers, adult males, and adult females—the table gives the number of low-wage workers in 1973, the percent with family incomes below the overall median family income ($12,620) in 1972, and the ratio of median family income for low-wage workers to that for high-wage workers, in each case broken down by whether the worker is a family head and whether he or she works full time or part time.

For teenagers the results are much as before. Again, a very slight majority of low-wage teenagers have family incomes above the median, with the overall median above that for high-wage teenagers. The relationship holds even for teenagers who are heads of families (could they be communes?), though there are so few that such a finding should not be taken very seriously. For adults, on the other hand, data for males and females, heads and nonheads, full- and part-time workers, reflect the same modest correlation between wages and family incomes. Particularly surprising is that females who are not family heads show only a slightly less tight relationship between wages and family incomes than males (or females) who are family heads. These low-wage females appear to "need" the income just as much as males do.[34]

The generally loose correlation between wages and family incomes implies that minimum wages will never have strong redistributive effects. For every billion dollars that a boost in the minimum brings to low-wage workers, $0.3 billion goes to teenagers, who either do not benefit at all (if the elasticity results can be believed) or who are so spread out along the

34. This result strikes a point in favor of the feminists who object to designating the male the head when both the male and female are present and working. Objectionable as this convention may be, the Census Bureau could at least defend it if male "head" wages were seen to be more closely related to family incomes, but such appears not to be the case.

Table 10. Matrix of Income Distribution, 1972, and Wage Distribution, 1973, for Adults

Hourly wage (dollars) and item	Family income (dollars)					Total, all income groups
	Below 4,000	4,000–8,000	8,000–15,000	15,000–25,000	25,000 and over	
Below 1.60						
Number[a]	788	764	653	243	25	2,473
Percent of total[b]	1.4	1.4	1.2	0.4	*	4.4
Median annual income[c]	...	...	...	...	...	6,352
1.60–2.00						
Number	684	1,102	1,490	423	112	3,811
Percent of total	1.2	2.0	2.7	0.8	0.2	6.9
Median annual income	...	...	...	...	...	8,560
2.00–2.50						
Number	658	1,176	2,615	1,154	172	6,375
Percent of total	1.2	3.2	4.7	2.1	0.3	11.5
Median annual income	...	...	...	...	...	10,016
2.50–3.00						
Number	418	1,622	2,715	1,645	249	6,649
Percent of total	0.8	2.9	4.9	3.0	0.4	12.0
Median annual income	...	...	...	...	...	11,311
3.00–3.50						
Number	215	1,518	2,887	1,642	323	6,585
Percent of total	0.4	2.7	5.2	3.0	0.6	11.9
Median annual income	...	...	...	...	...	11,780
3.50–4.00						
Number	167	1,007	2,654	1,680	238	5,746
Percent of total	0.3	1.8	4.8	3.0	0.4	10.3
Median annual income	...	...	...	...	...	12,480
4.00–5.00						
Number	208	837	4,239	2,666	573	8,523
Percent of total	0.4	1.5	7.6	4.8	1.0	15.3
Median annual income	...	...	...	...	...	13,320
5.00–6.00						
Number	69	311	3,415	2,381	598	6,774
Percent of total	0.1	0.6	6.1	4.3	1.1	12.2
Median annual income	...	...	...	...	...	14,062
6.00 and over						
Number	140	302	2,397	4,016	1,867	8,722
Percent of total	0.3	0.5	4.3	7.2	3.4	15.7
Median annual income	...	...	...	...	...	18,790
All hourly wage groups						
Number	3,347	9,239	23,065	15,850	4,157	55,658
Percent of total	6.1	16.6	41.5	28.6	7.4	100.0
Median annual income	...	...	...	...	...	12,620
Median hourly wage	2.15	2.80	3.72	4.43	5.64	3.67

Source: U.S. Bureau of the Census, tabulations based on the merged March and May 1973 supplements to the Current Population Survey.

a. Thousands.

b. Percent of all families; for example, the 788,000 adults whose 1973 hourly wage was below $1.60 and whose 1972 family income was below $4,000 account for 1.4 percent of the total 55,658,000 working adults. Details may not add to totals due to rounding.

c. Dollars.

* Less than 0.05 percent.

Table 11. Matrix of Income Distribution, 1972, and Wage Distribution, 1973, for Teenagers

Hourly wage (dollars) and item	Family income (dollars)					Total, all income groups
	Below 4,000	4,000–8,000	8,000–15,000	15,000–25,000	25,000 and over	
Below 1.60						
Number[a]	83	238	539	393	...	1,253
Percent of total[b]	1.5	4.2	9.6	7.0	...	22.3
Median annual income[c]	...	...	...	...	...	11,976
1.60–2.00						
Number	106	228	562	607	106	1,609
Percent of total	1.9	4.1	10.0	10.8	1.9	28.7
Median annual income	...	...	...	...	...	13,880
2.00–2.50						
Number	125	238	463	430	130	1,386
Percent of total	2.2	4.2	8.2	7.7	2.3	24.6
Median annual income	...	...	...	...	...	12,991
2.50–3.00						
Number	52	149	142	187	75	605
Percent of total	0.9	2.7	2.5	3.3	1.3	10.7
Median annual income	...	...	...	...	...	13,026
3.00–3.50						
Number	54	12	127	115	30	338
Percent of total	1.0	0.2	2.3	2.0	0.5	6.0
Median annual income	...	...	...	...	...	13,670
3.50–4.00						
Number	12	23	46	40	17	138
Percent of total	0.2	0.4	0.8	0.7	0.3	2.4
Median annual income	...	...	...	...	...	13,180
4.00–5.00						
Number	11	23	45	28	17	124
Percent of total	0.2	0.4	0.8	0.5	0.3	2.2
Median annual income	...	...	...	...	...	12,340
5.00–6.00						
Number	9	9	...	44	9	71
Percent of total	0.2	0.2	...	0.8	0.2	1.4
Median annual income	...	...	...	...	...	18,860
6.00 and over						
Number	8	50	20	12	...	90
Percent of total	0.1	0.9	0.4	0.2	...	1.6
Median annual income	...	...	..	...	...	6,690
All hourly wage groups						
Number	460	970	1,944	1,856	384	5,614
Percent of total	8.2	17.3	34.6	33.0	6.8	100.0
Median annual income	...	...	...	...	...	12,956
Median hourly wage	2.16	2.04	1.90	1.95	2.33	1.98

Source: Same as table 10.

a. Thousands.

b. Percent of all families; for example, the 83,000 teenagers whose 1973 hourly wage was below $1.60 and whose 1972 family income was below $4,000 account for 1.5 percent of the total 5,614,000 working teenagers. Details may not add to totals due to rounding.

c. Dollars.

Table 12. Relation between Wages and Family Incomes, Selected Demographic Groups, 1972 and 1973 Data[a]

Demographic group and working status	Low-wage workers[b]				
	Number (thousands)	Percent with family income below overall median[c]	Median family income		
			Low-wage workers (1972 dollars)	High-wage workers[d] (1972 dollars)	Ratio, low to high[e] (percent)
All workers	9,547	67.4	9,032	15,063	60.0
Teenagers	2,861	48.1	12,928	11,500	112.4
Head of family[f]					
Full-time worker	21	34.5	9,715	8,980	108.2
Part-time worker	8	50.0	20,000	11,500	173,9
Nonhead of family					
Full-time worker	663	51.0	12,466	12,431	100.3
Part-time worker	2,169	47.4	13,131	7,500	175.1
Adult males	1,893	76.5	7,364	15,490	47.5
Head of family[f]					
Full-time worker	1,065	79.5	6,752	15,580	43.3
Part-time worker	393	75.0	7,408	13,250	55.9
Nonhead of family					
Full-time worker	278	67.4	9,960	13,908	71.6
Part-time worker	157	76.3	7,164	13,495	53.1
Adult females	4,793	75.3	7,440	14,510	51.3
Head of family[f]					
Full-time worker	666	78.1	6,680	15,600	42.8
Part-time worker	388	73.0	8,280	11,374	72.8
Nonhead of family					
Full-time worker	2,224	75.7	7,400	14,563	50.8
Part-time worker	1,515	73.9	7,972	13,915	57.3

Sources: Same as table 10.

a. The numbers in this table are slightly different from those in tables 2, 3, 4, 10, and 11 because of sample-weighting problems.

b. Usual hourly earnings below $2.00 per hour in 1973.

c. Family income below $12,620 in 1972, the median for the whole sample.

d. Usual hourly earnings above $4.00 per hour in 1973.

e. Ratio of the median family income of low-wage workers to that of high-wage workers.

f. The data refer to a family head or an unrelated individual.

distribution as to prevent effective income redistribution. Of the $0.7 billion received by adults, 25 percent goes to families with incomes above the median, requiring 25 percent to families with incomes below the median just to cancel the distributional impact of this leakage, and leaving only

half as a net absolute gain to the latter group. Hence this net gain from the minimum-wage boost is only $350 million. When it is recalled that the 25 percent increase in the minimum in 1974 added only 0.4 percent to the aggregate wage bill, its redistributive impact of 0.14 percent of the wage bill (0.4 × 0.35) easily gets lost in the shuffle.[35]

While it would be a mistake to emphasize heavily the one-year wage-income correlation for teenagers—today's low-wage workers may head tomorrow's low-income families—these results buttress the preceding reservations about the impact of high minimum wages on teenagers. Even if minimum wages did raise the incomes of low-wage teenagers, as much of this income would go to high-income families as to low-income families. When this observation is combined with the evidence on the shifting composition of teenage employment, it becomes hard to see the merit in trying to raise incomes of teenagers through a "distortionary" policy of this sort.

For adults, however, the tenuous argument in favor of minimum wages is preserved. There is indeed some disemployment effect, but not enough to make low-wage adults worse off on balance. Similarly, there is indeed some unintended support for high-income families, but that is outweighed by the benefits for low-income families. Yet the spillover of benefits into high-income families—who are not likely to become tomorrow's low-income families—is not trivial and does sharply reduce the efficiency of the minimum wage as a means of redistributing income. The inflationary potential of large increases in the minimum wage is likely to become serious long before the redistributive potential becomes significant.

Implications

Two important questions arise in the determination of minimum-wage policy. The first is obviously how high the minimum should be set. While the results here do not give a precise answer because one cannot put utility weights on all the outcomes, the basic facts are clear. As the minimum wage

35. If the multiplier portion of the minimum-wage boost also went to workers with very low wages—say, in the uncovered sector—the redistributive impact of 0.3 (0.8 × 0.35) would be larger, but still trivial. Incidentally, calculating the impact on Gini coefficients of any redistribution induced by the minimum wage is more complicated because families below the median income do not get half of all other income, the standard I have used as determining redistribution.

is increased beyond its historical range of 40 to 50 percent of the median wage, more and more workers confront the grab-bag combination of a higher wage but a reduced probability of having a job. This uncertainty is not innately disturbing, but it magnifies many of the undesirable implications of minimum wages that have appeared throughout this paper: compliance difficulties will no doubt intensify; more workers will either lose their jobs or have to take part-time jobs; more of the benefits will go to high-income families; and the impact on factor costs and product prices will grow disproportionately. At some point these complications make it unwise to boost the minimum wage any more, and that point is likely to be not much above the present minimum.

The second important policy question is whether the minimum should be differentiated according to the age of the worker. The results here suggest casting a moderately strong vote for a differential. If anything, minimum wages seem too low or about right for adults and too high for teenagers. The practical problem in introducing a differential has been the fear of internal substitution: What is to prevent employers from laying off high-wage adults to hire teenagers? The employment-demand relationships estimated here suggest some existing substitution of this sort between low-wage teenagers and adult females, though the prevailing low elasticities estimated here and in most other studies of labor demand also provide evidence to the contrary.[36] Whatever the case, the "youth differential" seems a desirable goal—in effect evening out teenage and adult wages less and unemployment rates more; and it seems eminently feasible to introduce this differential gradually, monitoring the internal substitution and stopping when and if adult disemployment becomes too great.

While the results for adults are sufficiently mixed that different observers would arrive at different conclusions, my own view is that as long as minimum wages are kept low relative to other wages, they are not terribly harmful and in fact even have slightly beneficial effects both on low-wage workers and on the overall distribution of income. They are far from the *best* way of redistributing income, however, and there are definite limits to

36. Some indirect evidence supporting the idea that teenager-adult substitution elasticities are not terribly high is given in Philip G. Cotterill and Walter J. Wadycki, "Teenagers and the Minimum Wage in Retail Trade," *Journal of Human Resources*, vol. 11 (Winter 1976), pp. 69–85; and Alan A. Fisher, "Adult Disemployment Effects of a Youth Minimum Wage Differential" (U.S. Department of Labor, Office of the Assistant Secretary for Policy, Evaluation and Research, June 1976; processed).

how high the minimum can be raised. Usually, the important limit is the disemployment effect, but in my results this limitation is overshadowed by others. On balance, disemployment does not seem sufficient to negate the benefits to low-wage workers of higher minimum wages. But a whole series of other complications does cause problems: employers resist paying the minimum in the first place; the minimum can have noticeable impacts on overall wages and prices; it can produce undesirable changes in the composition of jobs for teenagers and some adults; and it can provide income support for families who do not need it. These, more than the disemployment impact, make the most persuasive empirical case against raising the minimum wage too sharply.

Comments and Discussion

Robert J. Flanagan: When I began this paper I was skeptical that the minimum wage provided redistributive benefits for low-wage workers. I was also skeptical that the marginal return to yet another study of the impact of minimum wages could be very high. The second skepticism proved unwarranted, for Gramlich has given us an interesting and wide-ranging examination of the distributional aspects of the minimum wage. In reexamining a topic that has been heavily worked over in the past, he has developed a number of novel results. Even those readers who have trudged through the earlier literature on the impact of minimum wages—in fact, particularly those readers—will find a close study of the paper rewarding.

The paper builds upon modern theoretical analyses of minimum-wage impacts to derive a method for making welfare judgments as to whether low-wage workers *as a group* are better off with an increase in the level or coverage of the minimum wage. Gramlich computes two estimates of the maximum wage elasticity of labor demand at which the welfare of low-wage workers can be improved by wage or coverage extensions. In the high estimate, workers are assumed to be neutral toward risk; the model is applied to a minimum-wage law that covers only part of the economy. Here workers have the option of employment in the covered sector, unemployment while waiting for jobs in the covered sector, or employment in the uncovered sector. In the low estimate, workers are taken to be very risk-averse; that view is then applied to a world of full labor-force coverage in which the only alternative to a minimum-wage job is unemployment, and the only other income is transfers.

I do not find the particular full-coverage model in the paper entirely plausible. The model assumes that each time they change jobs workers draw a lottery ticket to determine whether they will be employed at cov-

ered-sector wages or unemployed with government transfer payments. If each low-wage worker recontracts a sufficient number of times during the year, the dispersion of expected income among low-wage workers will be quite small. But this formulation overlooks the effects of likely diversity—particularly skill diversity—within the low-wage group. In fact, p, the probability of having a covered-sector job, is likely to vary with the skill and possibly the race of low-wage individuals, tending to yield a market in which one group of low-wage workers recontracts regularly *within* the covered sector (or drawing on the study's empirical results, within the full-time covered sector), while the other group "recontracts" in unemployment (or in part-time work in the covered sector). The welfare judgment clearly changes when periods of low-income unemployment (or part-time work) are unlikely to be offset by the earnings from periods of full-year employment in the covered sector. If p is an increasing function of skill, then the low "break-even" estimates in table 1 are not low enough for the least-skilled workers subject to the law, and are not high enough for the most skilled. The main point is that the model and estimated welfare effects are probably overoptimistic for workers who were earning the lowest wages initially. The same general comment applies to the computation of m. Work with longitudinal data indicates significant serial correlation in the turnover behavior of individuals, so that the number of job-recontracting periods varies substantially *within* the low-wage labor force.

Some of the more striking evidence in the paper concerns the number of workers who report receiving wages that are less than the minimum. Our judgment on the noncompliance issue would be more certain if we had a more precise picture of the lower tail of the distribution of wages. If the distribution is truncated and clustered at, or just below, the statutory minimum in covered industries, one might well attribute some of Gramlich's findings to reporting error rather than noncompliance. If no substantial clustering or truncation appears, the noncompliance interpretation is more persuasive. Gramlich's data for 1975 offer some evidence on this point, since the range extends ten cents below the minimum. Yet there still were substantial numbers below that range, suggesting significant noncompliance in the covered sector.

In the partially covered sectors, it is difficult to judge whether the data result from reallocation to the uncovered sector or noncompliance, since there is no standard for the wage distribution in the absence of minimum-wage legislation. Some of Gramlich's statements assume the same under-

lying wage distribution in each sector. But why should sectors that differ in skill structure, unionization, geographical distribution, and so on, have the same wage distribution? In general, these data give us a strong sense of the leakage from the minimum wage, but no way to allocate it between noncompliance and noncoverage.

After absorbing the paper's empirical results, I began the final paragraph and read with astonishment that minimum wages "are not terribly harmful and in fact even have slightly beneficial effects both on low-wage workers and on the overall distribution of income." Rereading the manuscript does not reduce the impression that the sentence belongs at the end of someone else's paper. Gramlich's conclusion is apparently dominated by the finding of a possible net benefit for adult women under the program. In part, I am not persuaded, because I am skeptical of the low estimates of the break-even elasticity for reasons reviewed above. But even if one accepts these estimates, the net benefit surely must be balanced against the finding that changes in the minimum wage are associated with increased part-time work for teenagers, one of the more important results of the study. The legislation has the effect of forcing inexperienced workers into jobs in which the employer's investment per worker is lowest, and therefore probably of precluding meaningful on-the-job training. While the short-run distributional implications of this influence may not be serious, the long-run implications are. The steepness of experience-earnings profiles depends on the rate of human-capital investment in early years. Legislation that has the effect of channeling teenagers into low-training jobs has the effect of flattening the lifetime earnings profiles of these workers. A familiar feature of these profiles is the divergence of earnings over time for workers with different amounts of training. The data that Gramlich presents in tables 10 to 12 indicate that the correlation of wages and income becomes tighter with age. Thus, policies that restrict workers to part-time employment today are likely to be influential in defining tomorrow's low-income population.

Generally, I cannot find any major criteria by which to award the minimum wage even "slightly beneficial" effects on distributional grounds, and Gramlich's own interesting results have reinforced my original skepticism on this issue.

Michael L. Wachter: The Gramlich article on minimum wages is a useful analysis of the effects of the program in a world with different demo-

graphic groups and government transfer payments to the unemployed. A particularly strong point of the paper is its comprehensiveness, encompassing the myriad aspects of the minimum-wage program including employment displacement, compliance and coverage, income distribution, and inflationary effects. Placing minimum wages in the context of the broad economic environment allows Gramlich to comment on the overall impact of the program in a meaningful way.

In general, Gramlich finds that minimum wages have both positive and negative aspects but suggests that at current levels they may be "slightly beneficial." My reading of Gramlich's empirical work as well as the general literature leads me to a different conclusion. Whereas I am impressed with his treatment of the minuses on the issue, I find the evidence to support the pluses quite weak. In my comments I concentrate on the areas on which we disagree—namely, on the alleged favorable effects of minimum wages.

Gramlich focuses on the fact that although minimum wages may force some workers out of a job, all low-wage workers may benefit. The reason is that workers in a newly covered industry face three potential outcomes. They can retain their jobs in the covered sector at the new high wage. Or if they are displaced, they have a choice: they can either queue for a job in the high-wage, covered sector and receive unemployment compensation while waiting, or they can fall back on a sure job in the low-wage, uncovered sector.

Under certain conditions, wages in the uncovered sector may actually rise. For example, the smaller the displacement effect in covered employment, the more likely that the low-wage group will gain from the minimum-wage program. In addition, the higher the government unemployment-insurance rate, the greater the attractiveness of being unemployed on the queue of the high-wage sector. Essentially, for the low-wage workers to gain, the chance of finding a job in the covered industries—given unemployment compensation to ease the cost of being out of work—must be great enough to avoid an increase in the supply of labor to the uncovered sector. An interesting section of Gramlich's paper is the calculation of the conditions under which all low-wage workers are made better off by an increase in the minimum wage.

My major disagreement with Gramlich's paper involves his claim that the displacement effect is relatively small. The problem with this key link in his analysis is the difficulty of extracting an estimate of the employment loss in the covered sector from the time-series data. This should encourage

an agnostic position on the size of the employment loss. Gramlich, however, attempts to estimate the displacement effect, but due to errors of observation in his minimum-wage variables, his measure of the employment loss is likely to be seriously biased downward.

Gramlich splits the minimum-wage variable into two components, the level of the minimum and its coverage. The first is expressed as a ratio of the minimum relative to wages elsewhere in the economy. The second is often measured in the literature as the percentage of the employed who are in industries covered by minimum wages. Gramlich prefers to utilize dummy variables, one for each year in which coverage was extended.

Each of Gramlich's minimum-wage constructs has serious limitations. The first variable, the relative minimum wage, suffers from its small real variation over the estimation period. Minimum wages are set at discrete intervals. From 1950 to 1968, however, each new law restored the minimum to approximately 55 percent of the values of average hourly earnings in the private nonfarm economy. Between revisions in the minimum, that ratio obviously fell below 55 percent. It is most unlikely that firms respond to the slippage in minimum wages between revision dates by substituting unskilled for skilled labor or for capital, only to restore the old factor-input ratio after the law is updated. Indeed, I would argue that, given the typical lags of adjustment, the effective value of the relative-minimum-wage term has been virtually a constant and not a variable between 1950 and 1968. In any case, the observed variation in the data is due solely to the timing of changes in the minimum wage, and should have little predictive value in isolating the displacement effect that might be expected if minimum wages were increased secularly.

From 1968 to 1974, on the other hand, the level of the minimum was unchanged and thus suffered erosion in relative-wage terms. With the 1974 law, the minimum was set at only 47 percent of average hourly earnings in the total private economy. Ceteris paribus, that downward relative movement should have increased employment. As I indicate below, however, the effect is more than offset by change in coverage. If the relative level of minimum wages has caused much of a loss in employment, most of that loss should have occurred before 1950. The relative minimum wage increased in value only in the years between the initial act in 1938 and 1950. These years, however, are largely outside Gramlich's sample period. In summary, over the sample period 1948–75, the relative minimum wage does not have the kind of variability that allows for a reliable estimate of the displacement effect.

The major event in the story of minimum wages between 1948 and 1975 is the change in *coverage* that took place in 1967 (and to a lesser extent in 1961). The 1967 legislation instituted a major extension centered on low-wage workers in the retail and service sectors. It is generally estimated that many of these workers were actually earning wages below the minimum.

Prior to 1967, the Congress made a practice of excluding those industries in which minimum wages would have a real impact on employment. Hearings would be held and representatives of the relevant service industries would troop down to Washington to explain that they would have to lay off numerous workers, especially teenagers, if they were not excluded from coverage. In every instance before 1967 (with some small exceptions in 1961) Congress granted the exemptions. One might surmise that Congress passed minimum-wage laws for political reasons, but attempted to minimize their economic effects. In 1967 the ax fell and Congress greatly extended the reach of minimum wages.

Yet Gramlich finds only a slight effect for 1961 and none at all for 1967. This is a disturbing finding and casts doubts on the validity of Gramlich's employment equations in general. Since minimum wages fell relative to average wages between 1967 and 1975, without a coverage variable Gramlich's model is forced to predict that minimum wages, ceteris paribus, had the effect of reducing unemployment of teenagers and secondary workers over the last decade—that is, there is a replacement rather than a displacement effect. This is difficult to believe, given both the significant extension of coverage into the lower-wage sectors in 1967 and the finding by most other studies of a displacement effect after 1967.

My second disagreement with Gramlich involves his specification of the model to calculate the welfare loss to low-wage workers. Specifically, he assumes that all workers in covered industries are equally likely to be laid off or rehired. In a sense, all workers have a right to place a marble in the urn and all have an equal chance of being chosen for the high-wage covered job. This is not the case. Seniority systems operate even without unions so that the probability of being retained in the covered sector varies enormously among individuals and demographic groups.

The unequal probabilities change the nature of the income-distribution game that Gramlich is playing. Most workers are not involved in an uncertainty situation. Internal labor markets are hierarchical. Those at the bottom are those who are dropped when minimum wages are introduced. In other words, some workers know with a probability close to unity that they will stay in a covered job. Others know with a similar probability that

they will be fired. In this framework, Gramlich's statement that all low-wage workers can benefit from minimum wages is not supported by the empirical results. Teenagers (nonpoor and poor) and blacks (mostly poor) tend to be the losers. In the Gramlich analysis they lose by being shunted into part-time jobs. To the extent that his displacement effect is strongly understated, they also lose by receiving lower wages in the uncovered sector.[1]

In this context, I believe that the historical effects of minimum wages and, in particular, the extensions in coverage that took place in 1961 and 1967 can be identified. Whether purposeful or not, the extension of coverage coincided with the massive influx of young workers and females into the lower-wage industries. This increase in supply meant that wages in the low-wage occupations and industries should have suffered erosion. The extension of coverage mitigated this erosion and protected the wages of the established workers. This effectively closed out some of the new workers, driving up their relative unemployment rates and rendering them structurally unemployed at prevailing wage rates. Relative wages were not permitted to adjust to clear the markets and the established workers maintained their relative wage positions.

One might infer from Gramlich's paper that minimum wages have had the effect of increasing the "utility" of low-wage workers, but this, I believe, would be unjustified. First, because his findings understate the displacement effect, wages in the uncovered sector are not likely to rise. Second, the displacement effect falls very unevenly across demographic groups.

My criticisms of Gramlich's paper have dealt solely with his positive claims for minimum wages. Gramlich himself develops an eloquent statement of the potential minuses of minimum-wage laws. He argues that they are very difficult to enforce, are probably not well enforced today, and do not really help low-income families since many low-wage workers are *not* from such families. Clearly, minimum wages are not an efficient device for redistributing income. In addition, he argues that minimum wages have been slightly inflationary, but only slightly because of the slow rise of the minimum wage from 1950 to 1975. More relevant, however, is Gramlich's

1. Unfortunately, Gramlich did not break the sample down by race. Other researchers find that blacks as well as teenagers lose out. Gramlich's finding that females do relatively well under the minimum-wage regime appears somewhat optimistic. For a study showing adverse effects, see J. Peter Mattila, "The Effect of Extending Minimum Wages to Cover Household Maids," *Journal of Human Resources*, vol. 8 (Summer 1973), pp. 365–82.

warning that minimum wages could be highly inflationary if raised significantly above their current levels. I would add that this is especially true given the extensions in coverage since 1960. Finally, I would note that minimum wages increase the noninflationary unemployment rate by encouraging workers to remain unemployed or on welfare while waiting for a job in the covered sector.

To conclude, I find that Gramlich's arguments in favor of minimum wages are not supported by the evidence. His most interesting and novel findings strengthen the case against minimum wages. The economic support for the minimum-wage program remains very weak indeed.

General Discussion

Robert Hall said that he had learned a lot from Gramlich's paper: in particular, it confirmed that the direct use of taxes and grants is the only effective method of income redistribution. It is inefficient to attempt to redistribute income by redistributing its determinants. Hall felt that Christopher Jencks had shown this with respect to education, and Gramlich now extended the finding with respect to hourly earnings. Hall stressed that the potential for redistribution through minimum wages is small because the relationship between hourly wages and annual family incomes is so loose; in particular, low-wage teenagers tend to come from high-income families.

Marina Whitman felt that the relevant policy question was not whether the minimum wage should be abolished, but rather what the appropriate levels should be for adults and teenagers. Martin Feldstein suggested that for the design of appropriate policy, a more detailed disaggregation is required: for example, the part-time workers should be divided to identify students, who might actually prefer part-time employment. Feldstein felt that such information would highlight the advantage over minimum wages of measures such as subsidized training that would increase employers' incentives to hire teenagers.

Hall encouraged Gramlich to try to quantify the social costs of minimum wages, including the unemployment-compensation costs to taxpayers, the output forgone, and the additional inflation. Arthur Okun remarked that the extra inflation Gramlich attributed to the 1974 rise in minimum wages far exceeded the estimated impact of a drop of 1 percentage point in the unemployment rate for a year.

Whitman noted the additional complexity of calculating the adverse effect on lifetime earnings of the training opportunities that were forgone when workers moved from the covered into the uncovered sector. Gramlich acknowledged that, by including only the effects that are easily quantifiable, he had engaged in some oversimplification; but he stressed that this did not necessarily bias the results in favor of the minimum wage. Among the effects omitted, for example, were the possible gain in people's self-respect resulting from higher wages, and the incentives to employers to create better jobs. Edmund Phelps argued that the proper evaluation of effectiveness would compare the costs of the minimum wage, not merely with its benefits, but with the costs of alternative policies that yielded the same increase in the welfare of low-wage workers. One might conclude that the minimum wage was better than nothing and yet worse than alternative redistributive policies.

Gramlich replied to a concern expressed by Flanagan and Wachter that his treatment of low-wage workers as a single group might obscure important skill and racial differences that would significantly affect their probabilities of obtaining covered jobs. While this aggregation did bother him, he felt that it was appropriate to focus on a group of people who are similar because they all make low wages and to see whether minimum wages made them better off as a group. As long as the uncovered wage was increased, he could be confident that, on balance, most low-wage workers were better off. He also reminded Flanagan that his low estimate of the break-even elasticity was based on extreme risk aversion and to that extent was biased downward. Gramlich explained to Wachter that he had introduced the concept of the relative minimum wage only as a way of characterizing other studies. In his own work, he used the *real* level, as is appropriate for an explanation of labor demand in terms of an inverted production function. The *real* minimum wage is definitely not constant over the period, although it may well be collinear with other variables and does move in a bumpy pattern.

Michael Wiseman questioned the accuracy of the figures for wages and the inferences about compliance. In household survey data, the widespread reports of low wages might be attributed to response errors. But it was particularly surprising that *firms* would report a high degree of noncompliance with the minimum-wage law, as other studies cited by Gramlich indicated. Gramlich suggested that specialization within a firm—one person filling out the survey forms and another person dealing with minimum-

wage compliance—might be an explanation. Also, on the compliance issue, Gramlich informed Flanagan that the distribution of wages below the minimum was not clustered just below that statutory floor but extended far below it. Okun questioned the weight of the evidence on widespread noncompliance, since only about 8 percent of all jobs with wages below the minimum-wage interval were in the three fully covered industries included in table 4.

Several participants were puzzled by the differences between Gramlich's results and those of Jacob Mincer, who had combined the measure of the degree of coverage with that for the level of the minimum wage. Gramlich said he had separated these effects because they should enter into the employment function in different ways. The effect of a change in coverage depends on the size of the uncovered sector, on previously prevailing wages in the newly covered area, and the like. There is no valid way to collapse coverage and the minimum level into a single variable. Gramlich reported that he had tried to include coverage, but that it had not worked well. He suggested that changes are not so important as some of the participants seemed to believe on a priori grounds; perhaps they are poorly enforced.

The CHAIRMAN. Next we have the Linen Supply Association.

STATEMENT OF JOHN J. CONTNEY, EXECUTIVE DIRECTOR, LINEN SUPPLY ASSOCIATION OF AMERICA, AND DONALD L. STRUMINGER, PRESIDENT, LINEN SUPPLY ASSOCIATION OF AMERICA, ACCOMPANIED BY DONALD L. ROSENTHAL, ESQ., AND ELLEN C. SAENGER, LOOMIS, OWEN, FELLMAN & COLEMAN, WASHINGTON, D.C.

Mr. CONTNEY. Thank you, Mr. Chairman.

I appreciate the opportunity of speaking before your committee.

Let me introduce those of us at the front table.

I am John J. Contney, executive director of the Linen Supply Association of America.

On my right is Donald L. Struminger, president of the association.

We are accompanied by Ellen Saenger and Donald Rosenthal of the law firm of Loomis, Owen, Fellman & Coleman.

Mr. Chairman, we requested to testify because we believed the linen industry really provides a real life example of the adverse effects of minimum wage.

Let me tell you a little about the LSAA, Linen Supply Association of America.

The linen supply industry is made up of laundries that supply linen to hotels, shops, nursing homes, hospitals, etc.

LSAA is a voluntary trade association representing 1,053 member plants in the United States.

The industry does about a $1-billion business.

Our membership represents about 90 percent of that volume.

We wash and dry a heck of a lot of linen.

In 1976 our members processed over 4 billion pounds of textiles. We paid over 65,000 employees about $500 million in wages.

Again, we are a labor intensive industry, about 50 percent or more of our costs are spent on wages.

We purchased about $275 million in new textiles and about $37 million on machinery.

We supplied customers with over 7 billion pieces of linen and operated over 22,000 vehicles.

Until 1967, or until the time our industry was essentially covered under minimum wage, we had growing industry along with rapidly rising sales and with growing employment.

Since 1967 the number of companies in our industry has steadily shrunk and employment has shrunk even faster.

If I can characterize what we feel the minimum wage deal should be called, we could say we have lost business to self-service and do-it-yourself and our data indicates the minimum wage bill is a self-service bill.

We are a growing industry in terms of sales. Our market share has remained pretty constant.

But we are not growing as fast as we could if we could continue to offer wide services at prices our customers could afford to pay.

The linen supply industry is a service industry.

Our customers have told us if we raise our prices too high, they can do the work themselves, or they can do without some or all of our services.

In our opinion, raising minimum wages has forced our industry to raise prices. This has significantly cut the rate of growth of our industry by limiting our potential for continuing sales in our existing market areas.

Now, I would like to introduce the president of our association, Donald Struminger, and he will continue with our statement.

Mr. STRUMINGER. Thank you very much, Mr. Chairman, for the opportunity to be here today and speak to you and Senator Javits.

Rather than read to you the complete statement that we have prepared, I would prefer to summarize to you each of its major points.

It outlines some rather valid concepts, and I think you may find it very interesting reading.

If I may, I would like to enter our paper in its entirety in the record.

The CHAIRMAN. It will be included in the record at the conclusion

Mr. STRUMINGER. It is our understanding that the purpose of a hearing such as this is to determine what takes place realistically as a result of Federal legislation.

Everybody has their own theory, but only by talking to the "grassroots," the people that live with the legislation, can you truly find out what really happens.

The linen supply industry was essentially first covered by the Fair Labor Standards Act on an extensive basis beginning in February of 1967. From 1967 through 1972, the latest year of available Government statistics figures, our industry sales grew by over $500 million—an increase of 68 percent. We believe that we have maintained or increased our market share during this period, as the Consumer Price Index rose only 70 percent during the same period.

During these same years, 121 firms in our industry—8.4 percent—mainly small businesses—have gone out of business. Further, in the same 5-year period—and because of rising minimum wages—we have decreased employment by some 2.8 percent. In 1972, we had 1,885 fewer employees than we employed in 1967.

At this point I would like to introduce two charts which I believe will graphically illustrate the relationship between minimum wage, linen supply sales, and linen supply employment relating to 1967, which is the year when we were first covered.

You can see from the black line the number of actual linen supply companies in operation, the actual number of paid employees, and linen supply sales.

You can see how everything begins to peak toward 1967, the number of employees begins to fall off, the number of companies begins to reduce dramatically——

Senator JAVITS. Sales go up.

Mr. STRUMINGER. Sales are continuing to go up.

Senator JAVITS. That is one of the deficiencies in the table on page 5, which shows percentage loss of employment.

Mr. STRUMINGER. There are some cause-and-effect relationships.

Senator Javits, if I may, I believe I can tie those in as we proceed.

Senator JAVITS. All right.

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Mr. STRUMINGER. The second graph here says again the number of employees, the minium wage also rising, and our costs of actual production in terms of per pounds produced which is a common denominator used in the industry. Number of employees rises to 1967, begins to decline, minimum wage rises at the same rate, because of automation through our industry, the cost of production begins to decline.

Let me describe our industry to you. The linen supply industry is an energy-efficient recycling industry servicing hygienically cleaned textiles and protecting the health of our communities. Let me repeat that, the linen supply industry is an energy-efficient recycling industry servicing hygienically cleaned textiles and protecting the health of our communities.

What does this really mean?

It means that if the linen supply industry did not exist, and if the same volumes of laundry that we processed, and remember every man, woman, and child soils linens every day, were cleaned and dried in home-size washers and dryers, it would require 98 percent more energy, 70 percent more water, and 900 percent more detergents, than we use in our large-scale, mass-production equipment. At a time of energy shortage, and the necessity to conserve our natural resources, it is important that we do whatever we can do to reduce energy consumption.

Our Nation has established a level of cleanliness that has contributed greatly to the elimination of many of the health problems we were plagued with many years ago. Our industry has helped establish that level of cleanliness.

Our industry recycles linen and, therefore, conserves our natural resources and eliminates the need for disposables and their effect on our environment. Specifically, we save our forests from the paper manufacturers. We use recyclable textiles principally made of cotton grown by our Nation's farms.

Most of the approximately 65,000 employees in our industry are at, or near, the minimum wage, and are considered unskilled or semiskilled laborers.

Before our industry was covered under minimum wage, we had a growing number of companies hiring an ever-growing number of employees. After we were covered by minimum wage, we had a decrease in the number of companies and a net decrease in employment.

For example: In 1967, the New York City Manhattan Yellow Pages listed 67 linen and towel supply companies; there were only 27 companies listed in 1976.

If minimum wages continue to rise, this trend will continue: There will be fewer companies—hiring fewer people.

More and more of our industry's firms will automate in an attempt to reduce labor content.

Yet, at the same time, fewer numbers of firms will be able to afford the capital investment required to automate and compete.

The net effect will be a decrease in the number of people employed, and only the larger companies will survive.

Our present customers can do their own laundry—either in small, less energy efficient, on-premise laundry equipment or in home laundry equipment.

The results will be an even greater total energy use and water consumption—and even greater pollution to our Nation's waterways because of increased usage of laundry supplies.

There will also be an increase in the use of synthetic polyester fiber materials, which are made from oil, rather than the use of cotton which is grown on our Nation's farms.

Let us take a look at an excellent example of an industry put out of business by minimum wage and "do it yourself."

My illustration is a sister industry, the family and commercial power laundries. In 1963, there were 10,505 power laundries with 190,501 employees, and in 1972, the last official Government figures, the number of power laundries has been reduced to 3,094, with 80,699 employees. This is dramatic. A reduction or elimination of 6,400 plants and 110,000 employees.

At the same time automat coin-operated laundries increased from 9,669 in 1963 to 17,550 in 1972. The cost of sending your laundry out became too high and people began to do it themselves to save money.

In summary:

1. Conduct a separate study on the effects of employee dislocation due to rising minimum wages in the service industry.

By definition, a "service" is something you can do for yourself but would rather have done by someone else if it doesn't cost too much. Service industries are far more "labor intensive" than manufacturing industries.

Please refer to the chart included in our paper which dramatically shows, based on published Government figures the relationship between wages/hour—consumer price index—and productivity. It is obvious that all three merge together in 1967 and then sharply divide. Wages/hour and Consumer Price Index rise together while productivity falls substantially behind.

According to the Department of Commerce's publication, "U.S. Industrial Outlook of 1977," there were approximately 827,000 employees employed in the "Personal Services" industry section in 1976. This is 19 percent below 1967 employment levels of 1,028,000, a decrease of 193,000 employees in the 10 years since minimum wage first became applicable to many of the firms in the personal services sector.

2. Our industry has reduced health care cost. According to a recent study conducted by the American Hospital Association, 45 percent of hospitals were served their laundry requirements by outside textile maintenance service companies. Any change in the minimum wage structure will increase the cost of health care. A rising or indexed minimum wage will continue and intensify the inflationary effect on health care costs.

3. Indexing the minimum wage to any index is inflationary. Many of the sales of the linen supply industry are made under customer contracts for periods of from 1 to 3 years, to protect our member companies' investment in linen and garments.

An index of the minimum wage would be a built-in escalator for our costs. As a result, we would be forced to put automatic cost escalation provisions into our customer contracts. The result would be automatic inflation.

4. The minimum wage in our industry forms the base from which we determine other wages, based on skill levels and levels of responsibility. If the minimum wage rises, all wage levels will also rise until there will be the same relative differential in wages based on skill lev-

els and levels of responsibility, as had existed in the past. Anyone who doesn't believe this is kidding himself.

5. A rising minimum wage often benefits only union negotiators who use the minimum wage as a guide—a benchmark for a negotiated settlement in wage increases.

It has been our experience that if minimum wage rises 35 cents per hour, union negotiators will ask for 35-plus cents per hour to justify their representation of their union members from experience with 30 contract negotiators in the last 10 years.

6. In a labor-intensive service industry, productivity is generally based on the capacity and skill of the individual employee. Assuming that employees are working at or near full capacity makes increases of productivity far less likely in the service industries than in the manufacturing industries. In this industry, minimum wage is always discussed as the floor for union bargaining.

Ways other than minimum wage increases must be found to compensate workers, so that their total compensation will be at or above the poverty level.

But, let us not tell our current workers—good and currently productive people—that they are no longer economically productive, because we can no longer afford a higher minimum wage. Let us not dehumanize a major portion of society by telling workers that they are not unemployable.

We must get back to work. Let us remain as an energy efficient recycling industry that can hire people and keep them busy, instead of replacing people with machines. Although the minimum wage legislation's concept is to help the less skilled worker, any increase in the minimum wage would accomplish exactly the opposite result in our industry—and cause an even greater burden on our welfare rolls of low-skilled and unskilled minority workers.

I will be glad to answer any questions you may have, sir.

The CHAIRMAN. Thank you very much.

It is a remarkable picture here reducing labor costs.

I have your chart which appears on page 5 under the heading of Productive Labor Cost, Linen Supply Industry, in 1963. It is expressed as percentage of annual sales volume, 18.6; 1976 was not available when this chart was made.

Mr. CONTNEY. I did get the figures, productive labor costs percentage—1976 is down again, 14.8 percent.

The CHAIRMAN. And falling?

Mr. CONTNEY. Yes; continue the downward trend.

Senator, what we did shows what our experience has been. Very simply, that, as labor costs rise, our business begins to automate. We begin to replace people with machines.

Now, the dislocation problem not only exists in terms of people, that is as our industry mechanizes we reduce the number of jobs. But also the smaller firm is not able to make that capital investment. So our data also indicates that the tremendous shrinking of the number of firms in the industry has been primarily small firms who were simply unable to afford the capital investment and therefore simply have gone out of business.

The CHAIRMAN. The recent automation in the industry certainly creates another kind of job, other kinds of jobs. The machinery has

to be manufactured and all of this creates within the total economy a beneficial effect, more highly skilled jobs perhaps.

Mr. STRUMINGER. What happens in reality, Senator, you may make a machine which in the last 10 years that machine is going to put five people out of work. It may have taken, you know, five people to make the machine but they only work, you know, just a few minutes; it puts five people out of work forever.

The question then becomes if the people are working in the industry, say for 20 years, have perhaps reached the age where they can no longer be trained for skills in other industries, where are they going to go?

Mr. Chairman, I think it is more than just a tradeoff of laundry workers for manufacturers in a plant. Our workers are basically unskilled in the labor market; because of the nature of our business, we require an unskilled labor. These people are not retrained to start manufacturing equipment. They are out of a job.

Mr. CONTNEY. I would like to add, Senator——

The CHAIRMAN. You know, these arguments have been used since time immemorial whenever any new idea to reduce the manual labor comes on. The ditch digger you recall is going to throw all of the pick and shovel people out of work.

Really this argument in economic terms is a classically old but discredited argument, I think.

Mr. STRUMINGER. Well, Senator, it is true the argument has been around a long time. It was used during labor negotiations quite extensively. We can raise the wages, we are going to put some people out of work by doing that but those who are here are going to have more bread.

Unfortunately there are still things that enter into the picture. For instance, synthetic linens which were not around 10 or 15 years ago. For instance, a hotel now goes out and buys a synthetic linen sheet made of 50 percent polyester and 50 percent cotton, no longer needs to be ironed—you just throw it in the washer and dryer and they can do it themselves.

It is a question of the costs getting too high in doing it themselves. Just like the example we gave of the old family laundry business, the family laundry business was around until the costs became so high people decided to take it out to the local coin-operated laundromat. Now that industry has disappeared. There are very few commercial laundries left in the communities.

The CHAIRMAN. Well, I will tell you, I have just been summonsed. stuff out on the rocks, too, you know.

Mr. CONTNEY. Yes, we have.

The CHAIRMAN. Well, I will tell you, I have just been summonsed. I guess it is a summons, from the next to highest authority I have got. Thank you very much.

Mr. CONTENY. Thank you for your time, Senator.

The CHAIRMAN. We will now insert in the record the statements of the panel and additional statements and material supplied by those who could not appear here today.

[The information referred to follows:]

STATEMENT

OF

JOHN J. CONTNEY
Executive Director

and

DONALD L. STRUMINGER
President

OF

LINEN SUPPLY ASSOCIATION OF AMERICA

Before the

SUBCOMMITTEE ON LABOR
COMMITTEE ON HUMAN RESOURCES

UNITED STATES SENATE

ON

S. 1871

TO AMEND the FAIR LABOR STANDARDS ACT

August 2, 1977

Washington, D.C.

STATEMENT OF THE LINEN SUPPLY ASSOCIATION OF AMERICA

Members of the Linen Supply Association of America (LSAA) are opposed to an increase in the Federal minimum wage rate and opposed to any imposition of regular incremental increases in the minimum wage rate.

Federal minimum wages have had a serious and drastic effect on the number of firms in our industry and in our total employment. We believe that we are a good example of a service industry that is gradually being legislated out of business by an increase in the minimum wage. The Linen Supply Industry (SIC 7213) was essentially first covered by the FLSA on an extensive basis beginning in February of 1967. Between 1967 and 1972 (the latest year for which complete and accurate statistical data is available), our industry sales grew by over $193-million - an increase of 26.4%. We believe that we have maintained or increased our market share during this period, as the Consumer Price Index rose only 25.3% during the same period.

During these same years - 1967 and 1972 - 121 firms in our industry - 8.4% - (mainly small businesses) have gone out of business. Further, in the same five-year period - and because of rising minimum wages - we have decreased employment by some 2.8%. In 1972, we had 1,885 fewer employees than we employed in 1967.

Although complete data is not available, we believe that this trend continues - that is, growing industry sales but sales made by fewer firms employing fewer employees. Please note that we do not

take a position either pro or con on the issue of teenage employment, as it has relatively little affect on our industry. Rather, we address ourselves directly to a rapidly rising minimum wage as it covers our service-oriented industry.

WHO IS LSAA AND WHAT IS THE LINEN SUPPLY INDUSTRY?

LSAA is a voluntary trade association with 1,053 member plants in the United States. According to the U.S. Census of Business in 1972, the Linen Supply Industry (SIC 7213) consisted of 1,314 establishments, employing 65,622 people.

Members of LSAA account for more than 90% of the one billion-plus dollars annual sales of our industry; and employ over 60,000 people. In 1976, linen suppliers processed over four billion pounds of textiles; paid employees about $500-million in wages; used about $44-million in laundering supplies; purchased about $275-million of new textiles; spent about $37-million on machinery, equipment, and buildings; supplied customers with over seven billion pieces of linen; and, operated over 22,000 vehicles. All segments of textile rental have a total sales volume of over $2-billion a year.

LSAA member companies rent and service hygienically cleaned textile items to millions of customers in commerce, industry, and the professions. Hospitals, nursing homes, doctors' and dentists' offices, medical and dental clinics, schools and other important human needs institutions, as well as restaurants, hotels, food processing companies, retail stores, etc., are major customers of linen supply companies.

Virtually every city of even moderate size has at least one linen supplier. The expansion in the textile rental industry is part of the nation-wide trend toward a "lease-rental economy". The trend has been for more and more people to rent the textiles they need, rather than to buy them - if the service can continue to be offered on an economical basis. Textile rental provides comfort, convenience, hygiene, efficiency, and economy.

THE LINEN SUPPLY INDUSTRY IS AN ENERGY EFFICIENT RECYCLING INDUSTRY SERVICING HYGIENIC TEXTILES AND PROTECTING THE HEALTH OF OUR COMMUNITIES.

If the Linen Supply Industry did not exist, and if the same volumes of laundry that we processed were cleaned and dried in home-size washers and dryers, it would require 98% more energy, 70% more water, and 900% more detergents, than we use in our large-scale, mass production equipment. At a time of energy shortage, and the necessity to conserve our natural resources, it is important that we do whatever we can do to reduce energy consumption.

The Linen Supply Industry recycles its products, thereby reducing the use of disposable products, and thus helping to maintain a proper ecological balance. Our industry recycles linen and therefore conserves our national resources and eliminates the need for disposables and their effect on our environment. Specifically, we save our forests from the paper manufacturers. We use recyclable textiles principally made of cotton grown by our nation's farms.

WHAT HAS HAPPENED TO THE NUMBER OF FIRMS AND EMPLOYMENT IN THE LINEN SUPPLY INDUSTRY?

The Linen Supply Industry is a growing industry maintaining market share as compared with Gross National Product. But, the number of

firms in our industry and total employment has been seriously affected by minimum wage.

Here is a recap of linen supply rental receipts, payroll, and employment, from 1948 through 1972:

LINEN SUPPLY RENTAL RECEIPTS
(Establishments with Payroll)
1948 and 1954 data includes all establishments

Year	Number of Establishments	Receipts ($1,000)	Payroll Entire Year ($1,000)	Paid Employees for Week (Number)
1948	1,176	238,203	91,101	39,877
1954	1,382	326,383	124,528	43,318
1958	1,474	431,812	164,280	51,367
1963	1,469	570,157	212,720	56,332
1967	1,435	733,874	282,163	67,507
1972	1,314	927,480	385,065	65,622

The figures for 1948, 1954, 1958, 1963, 1967, and 1972 shown in the chart above are actual dollar receipts and payroll for linen supply as reported by the U.S. Department of Commerce Census.

U.S. government data after 1967 appears in the Bureau of the Census publication, "County Business Patterns". The reports are as follows:

LINEN SUPPLY EMPLOYMENT & PAYROLLS

Year	Number of Employees Mid-March Pay Period	Total Payrolls Jan-Mar ($1,000)	Total Reporting Units	Number of Reporting Size Units By Employment Size Class							
				1-3	4-7	8-19	20-49	50-99	100-249	250-499	500 or More
1968	66,539	77,136	1,326	219	157	269	272	205	173	27	4
1969	72,771	89,748	1,431	210	183	288	311	215	186	32	6
1970	71,633	94,272	1,456	199	175	322	324	213	188	31	4
1971	65,564	91,954	1,415	215	166	314	307	216	168	26	3
1972	65,389	100,714	1,366	194	170	296	288	212	183	21	2
1973	64,100	104,306	1,324	188	181	270	273	216	171	22	3

Note: "County Business Pattern" reports, although essentially complete, do not include all companies in the industry reports, only the reporting companies.

MANY OF THE APPROXIMATELY 65,000 EMPLOYEES IN OUR INDUSTRY ARE AT OR NEAR THE MINIMUM WAGE

Even many employees of our union organized plants are currently at or near minimum wage levels. The LSAA "July, 1976, Union Contracts Survey" is attached.

In many of our plants, minimum wage is used as the basis for current and continuing labor negotiations.

WE HAVE COPED WITH MINIMUM WAGE BY REDUCING THE LABOR CONTENT IN OUR INDUSTRY

Here is a comparison of labor costs (expressed as a percentage of sales) to minimum wage increases in our industry. Note that we have reduced total labor content from about 18½% of sales in the pre-1967 period, to approximately 15% of sales in the 1973-1975 period.

YEAR	MINIMUM WAGE (Coverage for most linen supply companies began under FLSA of 1966) Date Applicable	Amount	PRODUCTIVE LABOR COSTS * LINEN SUPPLY INDUSTRY (Costs as a percentage of annual sales volume)
1963	Not covered		18.6%
1964	Not covered		18.0
1965	Not covered		18.3
1966	Not covered		17.8%
1967	Feb. 1, 1967	$1.00	18.6%
1968	Feb. 1, 1968	1.15	19.0%
1969	Feb. 1, 1969	1.30	18.5%
1970	Feb. 1, 1970	1.45	17.9%
1971	Feb. 1, 1971	1.60	N/A
1972		1.60	N/A
1973		1.60	15.0%
1974	May 1, 1974	1.90	15.6%
1975	Jan. 1, 1975	2.00	14.9%
1976	Jan. 1, 1976	2.20	Not yet available
1977	Jan. 1, 1977	2.30	Not yet available

*Source: LSAA Operating Cost Survey Reports. Productive Labor Costs include all in-plant labor involved in processing, excluding vacation, sick leave, and holiday pay. Excludes salaries of supervisory personnel.

BEFORE OUR INDUSTRY WAS COVERED UNDER MINIMUM WAGE, WE HAD A GROWING NUMBER OF COMPANIES HIRING AN EVER GROWING NUMBER OF EMPLOYEES. AFTER WE WERE COVERED BY MINIMUM WAGE, WE HAD A DECREASE IN THE NUMBER OF COMPANIES AND A NET DECREASE IN EMPLOYMENT.

...Between 1967 and 1972, the number of firms in our industry declined by 8.4% - from 1,435 to 1,314. (In 1967, the New York City Manhattan Yellow Pages listed 67 Linen and Towel Supply Companies; there were only 27 companies listed in 1976.)

...Between 1967 and 1972, the number of employees in our industry declined by 2.8% - from 67,507 to 65,622.

...The decline in firms continues, especially in small firms with 1-3 employees.

...Total employment continues to drop - to about 64,100 in 1973.

IF MINIMUM WAGES CONTINUE TO RISE, THIS TREND WILL CONTINUE: THERE WILL BE FEWER COMPANIES - HIRING FEWER PEOPLE.

...More and more of our industry's firms will automate in an attempt to reduce labor content.

...Yet, at the same time, fewer numbers of firms will be able to afford the capital investment required to automate and compete.

...The net effect will be a decrease in the number of people employed.

...Unemployment will result. Many of these employees will be unskilled or low-skilled workers who will become unemployable and, most probably, will then be transferred to a welfare status.

...More and more of our companies - especially small companies - will go out of business, or be sold, or acquired by larger companies.

...Increasing minimum wages will force us now to increase our prices, as we can only automate further to a limited degree.

WE OFFER A "SUBSTITUTABLE SERVICE"

Our present customers can do their own laundry - either in small, less energy efficient, on-premise laundry equipment or in home laundry equipment.

...The results will be an even greater total energy use and water consumption - and an even greater pollution to our nation's waterways because of increased usage of laundry supplies.

...There will also be an increase in the use of synthetic polyester fiber materials, which are made from oil, rather than the use of cotton which is grown on our nation's farms.

RECOMMENDATIONS

1. WAIT UNTIL MORE DATA IS AVAILABLE BEFORE CONSIDERING NEW MINIMUM WAGE LEGISLATION.

Carefully analyze any intermediate data available, or wait until the 1977 Census of Business is completed, to determine if there is a continued decline in employment in the Linen Supply Industry and in other labor-intensive service industries, as a result of the continued effects of a rising minimum wage. Service industries are highly labor-intensive. In labor-intensive

industries, productivity is controlled almost exclusively by the skill of the individual employee. Where such an employee is already producing at full capacity, nothing short of automation will increase that capacity.

2. CONDUCT A SEPARATE STUDY ON THE EFFECTS OF EMPLOYEE DISLOCATION DUE TO RISING MINIMUM WAGES IN THE SERVICE INDUSTRIES.

By definition, a "service" is something you can do for yourself but would rather have done by someone else if it doesn't cost too much. Service industries are far more "labor-intensive" than manufacturing industries. As a result, increasing pressures will be put upon service industry employers to mechanize their business and lay off employees. Few service industries will be able to pass on higher labor costs to customers in the form of higher prices.

We suggest that a thorough review of the effects of the number of employees, productivity, and minimum wages, in the heavy labor-intensive service industries since their coverage under the Fair Labor Standards Act. Evidence of increased mechanization and the resultant dislocation of employment opportunities in the service industry sector of our economy is becoming quite clear. According to the Department of Commerce's publication, "U.S. Industrial Outlook of 1977", there were approximately 827,000 employees employed in the "Personal Services" industry sector in 1976, down from 835,000 employees in 1975 and 917,000 in 1972. This is 19% below 1967 employment levels of 1,028,000, a decrease of 193,000 employees in the 10 years since minimum wage first became applicable to many of the firms in the Personal Services sector.

3. CONSIDER THE CONCEPT OF "TRANSFERABILITY OF SERVICES" BEFORE MAKING ANY ATTEMPT TO INCREASE OR INDEX THE MINIMUM WAGE.

A. If labor costs rise due to increasing minimum wages, it is quite likely that service prices will rise. As service prices rise, it is quite likely that more employers will look for ways other than linen supply to provide their needs for clean linen and garments. It is quite likely that many employers will begin considering the transfer of the burden of linen and garment cleaning to either small, less efficient, on-premise laundries, or to employees themselves, thereby requiring their employees to wash their own garments at home. The net result will be a shift of the work from employees in the linen service industry to "non-employees". At the present time, employers are obligated to pay for employees self-maintenance of garments only to the extent that this free home labor does not cut into minimum wage levels.

B. There will be an increase in energy usage and pollution. The Linen Supply Industry is an energy efficient service industry serving many energy inefficient small customers. Customers using small laundries are less energy efficient than the larger laundries operated by linen supply companies. In addition, linen supply laundries discharge far less dirty water and washing soaps, detergents, and other chemicals used in the washing process, into municipal sewer systems than do home laundries.

The Linen Supply Industry also faces competition from disposable products and other linen substitutes. These products cannot be recycled and add to the solid waste disposal problems of our country. Replacing an industry that recycles with the use of products that pollutes, is contrary to all of our national environmental policies.

C. INCREASING MINIMUM WAGE AND INDEXING TO A MANUFACTURING WAGE INDEX WILL RESULT IN A MORE RAPID DECREASE IN THE NUMBER OF COMPANIES AND EMPLOYMENT IN THE LINEN SUPPLY INDUSTRY.

We have already shown that our Linen Supply Industry has had a significant decrease in the number of companies and a decrease in the number of employees during a period of rapidly rising minimum wages while, at the same time, maintaining a relative market share position.

Any increase in minimum wage will increase this dislocation of employment to "do it yourself" alternatives.

The same effect of employment dislocation has also been noted in other service industries. We can comment on two such industries which are allied to ours - the Power Laundry Industry and the Coin-Operated Laundry Industry.

Consider the effect of the transfer of laundry work from power and commercial laundries to self-service laundries (coin-operated, do it yourself, laundromats).

Between 1958 and 1972, there was a net increase of 4,376 firms, principally because of the increase in self-service laundries - but a net decrease of 104,048 in total employment:

COMPARISON OF POWER LAUNDRIES AND SELF-SERVICE LAUNDRIES
ESTABLISHMENTS, RECEIPTS, AND PAID EMPLOYEES
1958-1972, ESTABLISHMENTS WITH PAYROLL *

	POWER LAUNDRIES			SELF-SERVICE LAUNDRIES		
YEAR	ESTABLISHMENTS	RECEIPTS ($1,000)	PAID EMPLOYEES (Total)	ESTABLISHMENTS	RECEIPTS ($1,000)	PAID EMPLOYEES (Total)
1958	11,260	1,022,052	219,647	5,006	73,227	11,199
1963	10,505	1,040,233	190,501	9,669	173,655	16,222
1967**	6,350	941,696	146,155	15,981	407,412	32,207
1972**	3,094	670,273	80,688	17,550	673,361	46,110

* Source: U.S. Department of Commerce, Bureau of the Census, Census of Business Reports, 1950, 1963, 1967, 1972.

** Includes coin-operated laundries and dry cleaning establishments under the "Self-Service Laundries" category.

4. PLAN FOR AN EXPECTED CONTINUED INCREASE IN HEALTH CARE COSTS.

According to a recent study conducted by the American Hospital Association, 45% of hospitals were served their laundry requirements by outside textile maintenance service companies. Any change in the minimum wage structure will increase the cost of health care. A rising or indexed minimum wage will continue and intensify the inflationary effect on health care costs.

5. DO NOT INDEX THE MINIMUM WAGE - ESPECIALLY TO A MANUFACTURING WAGE INDEX.

Indexing the minimum wage to any index is inflationary and self-feeding. For the last year, LSAA has been seeking an appropriate index for minimum wages, but has been unable to find one. The attached chart comparing the Consumer Price Index, an

Index of Compensation Per Hour, and a Productivity Index of Output Per Man Hour, clearly indicates that both consumer prices and hourly compensation have far outstripped productivity.

Many of the sales of the Linen Supply Industry are made under customer contracts for periods of from one to three years, to protect our members companies' investment in linen and garments.

An index of the minimum wage would be a built-in escalator for our costs. As a result, we would be forced to put automatic cost escalation provisions into our customer contracts. The result would be automatic inflation.

Also, we would be severly penalized in all of our current fixed price contracts, if minimum wages rise as quickly as expected under this legislation. We, and other industries offering services, are often under multi-year contracts and have not been given any warning as to the rapidity or severity of the increases in our costs as proposed by this legislation.

Consider also the economic impact of minimum wages in wage policy determinations. The minimum wage in our industry forms the base from which we determine other wages, based on skill levels and levels of responsibility. If the minimum wage rises and, further, if it is indexed, all wage levels will also rise until there will be the same relative differential in wages based on skill levels and levels of responsibility, as had existed in the past.

A rising minimum wage often benefits only union negotiators who use the minimum wage as a guide - a benchmark for a negotiated settlement in wage increases. It has been our experience that if

minimum wage rises 30 cents per hour, union negotiators will ask for 30-plus cents per hour to justify their representation of their union members. Thus, rising minimum wages are only the base for an even higher, self-perpetuating wage increase pattern.

Especially detrimental to our industry would be an index based on Average Hourly Wage in Manufacturing. Manufacturing industries are normally highly mechanized. Individuals employees in such industries are highly skilled. This combination of skill and mechanization afford the manufacturing industry a relatively high level of productivity.

In a labor-intensive service industy, productivity is generally based on the capacity and skill of the individual employee. Assuming that employees are working at or near full capacity makes increases of productivity far less likely in the service industries than in the manufacturing industries. Automatic indexing to anything but a Productivity Index could be seriously detrimental to our economy; automatic indexing to a Manufacturing Wage Index could be disastrous to a highly labor-intensive service industry.

CONCLUSION

Thomas Jefferson said: "The government that governs best, governs least." Let us not continue to legislate wage levels; let us, instead, have the marketplace seek its own level. Our primary national goal must be to increase employment. Ways other than minimum wage increases must be found to compensate workers, so that their total compensation will be at or above the poverty level.

But, let us not tell our current workers - good and currently productive people - that they are no longer economically productive, because we can no longer afford a higher minimum wage. Let us not de-humanize a major portion of society by telling workers that they are now unemployable.

We have shown that the Linen Supply Industry is efficient in maintaining productivity and in curbing price increases. We have also shown that we are an energy efficient recycling industry. But, we have also shown that the rising minimum wage since 1967 has reduced the number of firms and employment in our and other Personal Service industries.

We must get back to work. Let us remain as an energy efficient recycling industry than can hire people and keep them busy, instead of replacing people with machines. Although the minimum wage legislation's concept is to help the less skilled worker, any increase in the minimum wage would accomplish exactly the opposite result in our industry - and cause an even greater burden on our welfare rolls of low-skilled and unskilled minority workers.

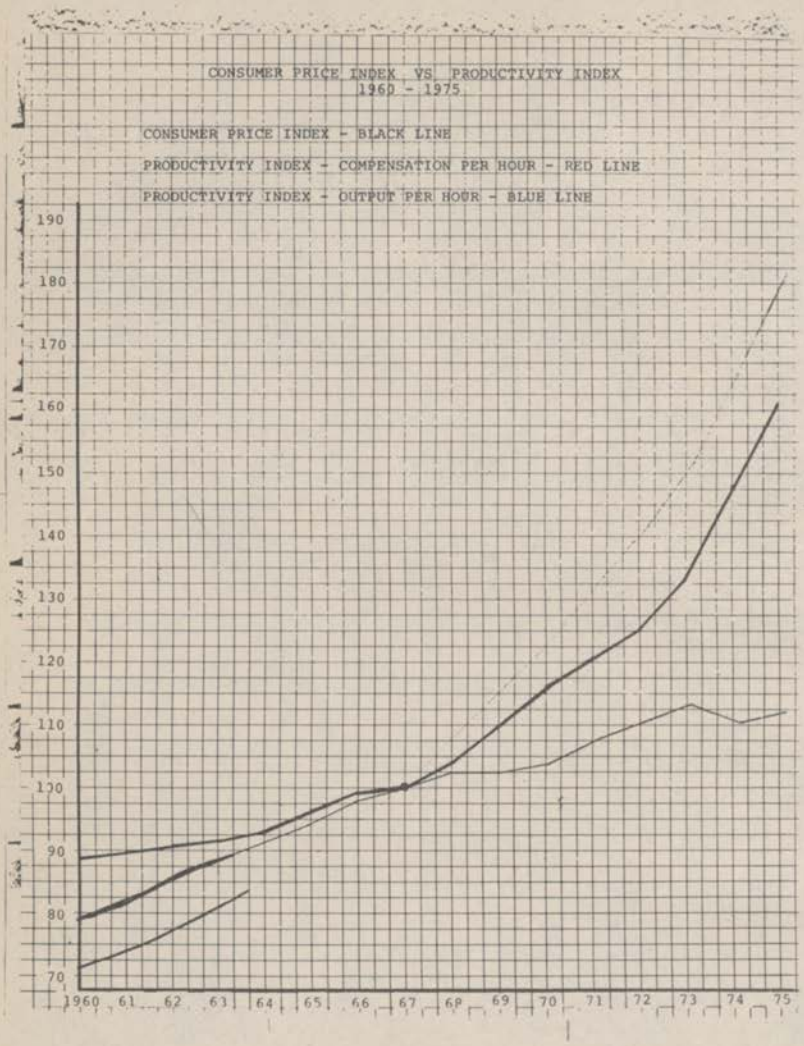
This Committee, the Congress, and proponents of this legislation should carefully re-read Section 2(b) of the existing law, enacted as a part of the original Fair Labor Standards Act in 1938. We ask the Committee to determine whether the effect of the legislation under consideration today is in accord with the declaration contained in that section.

Section 2(b) states:

> "It is hereby declared to be the policy of this Act, through the exercise of Congress of its power to regulate commerce among the several states and with foreign nations, to correct and as rapidly as practicable to eliminate the conditions above

> referred to [Section 2(a) of the Act] in such industries without substantially curtailing employment or earning power."

We have shown that an increase in the minimum wage has caused substantial employment curtailment in the Linen Supply Industry. An increase in minimum wage, and subsequent indexing, will substantially continue to curtail employment and the earning power of low skilled workers. As such, it would run directly counter to the policy declaration contained in Section 2(b) of the Fair Labor Standards Act of 1938.


CONSUMER PRICE INDEX VS PRODUCTIVITY INDEX
1960 - 1975
CONSUMER PRICE INDEX - BLACK LINE
PRODUCTIVITY INDEX - COMPENSATION PER HOUR - RED LINE
PRODUCTIVITY INDEX - OUTPUT PER HOUR - BLUE LINE
190
180
170
160
150
140
130
120
110
100
90
80
70
1960
61
62
63
64
65
66
67
68
69
70
71
72
73
74
75

CONSUMER PRICE INDEX VS PRODUCTIVITY INDEX (1960 - 1975)

	CONSUMER PRICE INDEX			PRODUCTIVITY INDEX *			PRODUCTIVITY INDEX **		
YEAR	ANNUAL	% INCREASE	% CUMULATIVE INCREASE	ANNUAL	% INCREASE	% CUMULATIVE INCREASE	ANNUAL	% INCREASE	% CUMULATIVE INCREASE
1960	88.7	-	-	71.6	-	-	79.0	-	-
1961	89.6	1.0	1.0	74.3	3.8	3.8	81.9	3.7	3.7
1962	90.6	1.1	2.1	77.8	4.7	8.7	85.5	4.4	8.2
1963	91.7	1.2	3.4	80.7	3.7	12.7	88.4	3.4	11.9
1964	92.9	1.3	4.7	85.1	5.5	18.9	91.9	4.0	16.3
1965	94.5	1.7	6.5	88.5	4.0	23.6	94.6	2.9	19.7
1966	97.2	2.9	9.6	94.7	7.0	32.3	93.0	3.6	24.1
1967	100.0	2.9	12.7	100.0	5.6	39.7	100.0	2.0	26.6
1968	104.2	4.2	17.5	107.7	7.7	50.4	102.7	2.7	30.0
1969	109.8	5.4	23.8	115.3	7.1	61.0	102.7	-	30.0
1970	116.2	5.9	31.1	123.6	7.2	72.6	103.9	1.2	31.5
1971	121.3	4.3	36.8	132.1	6.9	84.5	107.7	3.7	36.3
1972	125.3	3.3	41.3	140.0	6.0	95.6	111.1	3.2	40.6
1973	133.1	6.2	50.1	151.4	9.1	111.5	113.7	2.3	43.9
1974	147.7	11.0	66.5	165.7	9.4	131.4	110.8	(2.6)	40.3
1975	161.2	9.1	81.7	180.8	9.1	152.5	112.2	1.3	42.0

* Compensation Per Hour (Unadjusted for changes in C.P.I.)
** Output per hour.

ANALYSIS OF UNION CONTRACTS JULY 1976

LINEN SUPPLY ASSOCIATION OF AMERICA
975 Arthur Godfrey Road
Miami Beach, Florida 33140
(305) 532-6371

ANALYSIS OF UNION CONTRACTS

ROUTE SALESMEN, HELPERS AND OTHER OUTSIDE WORKERS

AS OF JULY 1976

WAGES — COMMISSIONS — BONUSES

ATLANTA

Routemen (after 9 months)	$200 per week
Helpers (after 6 months)	172 per week
Mechanic (after 1 year)	200 per week
Mechanic Helper (after 1 year)	187 per week
Car Wash Porter (after 9 months)	159.40 per week

Guaranteed weekly salary for 40 hours, five days a week. Overtime one and a half times regular hourly rate over 40 hours. Sunday is two times.

BALTIMORE

Drivers	$4.50 per hour
Driver Trainees	3.90 per hour
Helpers	3.31 per hour
Relay Drivers	4.21 per hour
Garage Mechanics	4.50 per hour
Garage Mechanics Helpers	3.65 per hour

Guaranteed weekly salary for 40 hours, five days a week. Overtime one and a half times regular hourly rate over 40 hours. Saturday one and a half times. Sunday is two times.

BIRMINGHAM

Route Salesmen start	$156 per week
after 3 months	162 per week
after 6 months	168 per week
after 9 months	176 per week
after 1 year	184 per week

Guaranteed weekly salary for 40 hours, five days a week. Commissions are paid on new accounts. Overtime one and a half over 40 hours.

BOSTON

Drivers	$6.14 per hour
Helpers	5.83 per hour
Apprentice drivers (after first 60 days)	6.14 per hour

Guaranteed weekly salary for 40 hours, five days a week. Commissions are paid on new sales. Cost of living adjustment. Overtime one and a half over 40 hours or one and a half after eight hours daily, whichever is greater. Saturday one and a half times.

BUFFALO

Routemen	$216.80 per week
Route Supervisor	226.80 per week

Guaranteed weekly salary for 40 hours. Commission paid on new sales and linen replacement collection. Overtime one and a half times regular rate over 8 hours daily. Saturday one and a half times. Sunday is two times.

CHICAGO

Experienced routemen	$6.325 per hour
Put-up men	6.425 per hour
Inexperienced routemen (1st 4 weeks)	4.716 per hour
(2nd 4 weeks)	5.146 per hour

Guaranteed weekly salary for 40 hours, five days per week.

Commissions paid— Towel cabinet service on flat rate, amount paid by the customer for the first two months of service.
Towel cabinet service on piece rate, amount paid by the customer for the first month's service.
Continuous towel service amount paid by the customer for the second month's service.
All other linen supply 50 per cent of the second four weeks of business by new customer.
No bonuses allowed.
Overtime one and a half over 40 hours.

CINCINNATI

First 45 days, weekly wage as agreed upon by the employer and employee.	
From 45-90 days	$140 per week
After 90 days	160 per week

Guaranteed weekly salary for 40 hours, five days a week. Overtime one and a half over nine hours per day, one and a half over 40 hours.
Commission paid 50 per cent of the second month's business; three per cent on all paper products sold in case lots; 10 per cent on privately owned laundry bundles.

DETROIT

	Base Pay	Minimum Weekly Guarantee
Linen supply driver salesman	$54.00	$182.00

Commission 14 per cent on all business up to $2,000 weekly and seven per cent on the excess. Dust items and shop towels 16 per cent of first $100 weekly to any one stop and eight per cent thereafter. Disposables — six per cent but not to be included in $2,000 weekly. Sale items seven per cent but not to be included in $2,000 weekly.
Exclusive cabinet towel driver/salesmen.
Minimum wages same as linen rental driver/salesmen but with a base pay of $135; commission at six and a half per cent.
Exclusive wholesale driver/salesmen.
Minimum wage same as linen rental driver/salesmen but with a base pay of $103.50; commission at five per cent.
Route relief driver/salesmen — $266.50 weekly.
New and inexperienced route relief driver/salesmen — $222 weekly.
Bulk rate driver/salesmen — $270 weekly.
Relay employees — $240 weekly.
40 hour week, five days per week. Overtime paid at one and a half over eight hours daily or 40 hours per week.
Industrial garment driver/salesmen — weekly minimum salary same as linen drivers but with base pay of $51. Commission 14% per cent on all route business up to $2,000 weekly and 7¼ per cent thereafter. Dust items and shop towels 16 per cent of first $100 weekly per stop and eight per cent thereafter. Disposables six per cent.
Exclusive shop towel and dust control drivers — same as above but with base pay of $57.

HOUSTON

After trial period	$170 per week
6 months later	185 per week
9 months after hiring	205 per week

Commission paid 13 per cent in cash sales and 11 per cent on charge sales.
Guarantee for commission paid employees shall be not less than guarantee for hourly paid routemen.
Guaranteed weekly salary for 40 hours, five days per week. Overtime one and a half over 40 hours.

INDIANAPOLIS

Linen driver	$196 per week
Industrial driver	207 per week

Guaranteed weekly salary for 40 hours, five days per week. Overtime one and a half over 40 hours.

KANSAS CITY

Linen supply routemen	$5.25 per hour

Guaranteed weekly salary for 40 hours. Overtime one and a half over 40 hours.

LOS ANGELES

Supervisors	$7.02 per hour
Utility drivers	6.69 per hour
Linen drivers	6.15 per hour
Commercial flat drivers	5.52 per hour
New drivers (linen)	4.75 per hour

Guaranteed weekly salary for 40 hours, five days per week.
Commission paid on linen account 50 per cent of second month volume.
Commission paid on flat rate 100 per cent of first month volume.
Overtime one and a half over 40 hours.

MIAMI

	Retail	Wholesale	Special Delivery
Start	$163	$158	$163
3 months	168	163	—
6 months	173	168	168
9 months	195	183	173
Training hours	50	55	50
Season hours	45	50	45
Non-season hours	40	45	40
Work week	5 days	6 days	5 days

Overtime will be paid at one and a half over maximum hours set forth under Fair Labor Standards Act of 1938 as amended.

MILWAUKEE

Route Salesmen	$204 per week

Guaranteed weekly salary for 40 hours Commission paid on specific types of sales. Saturday one and a half times. Sunday is two times.

NEW YORK

Non-Commission	
Routemen — linen	$192.50 per week
Routemen helper — linen	149.50 per week
Routemen — office towel	187.60 per week
Routemen helper — office towel	147.80 per week
Routemen — trailer	221.50 per week
Commission	
Linen	$165 per week
Industrial & dust control	155 per week

Dust control industrial route salesmen — 10 per cent on first $1,000 weekly volume.
Overtime one and a half over 45 hours, except office towel routemen and helpers (one and a half over 43 hours).

PITTSBURGH

Routemen	$6.21 per hour
Runner	6.46 per hour

Guaranteed weekly salary for 40 hours, five days a week.
Commission paid on new business.
Overtime one and a half over 10 hours daily or 40 hours weekly, whichever is greater. Saturday and Sunday is double time.

PORTLAND

Full-time salesmen	$201.00 per week
Retail laundry salesmen	220.00 per week
Utility driver	254.28 per week
Plant driver	6.07 per hour
Commercial routes	221.00 per week
Industrial supply driver	236.00 per week
Industrial bulk route driver	288.33 per week
Linen industrial supply supervisor	313.14 per week
Family laundry & drycleaning supervisor	290.76 per week
Warehousemen	5.68 per hour
Wholesale drycleaning & route drivers	230.73 per week

Guaranteed weekly salary for 45 hours, five days per week.
Various commissions are paid.
Overtime one and a half for Saturday, double time for Sunday.

ST. LOUIS

Route operator	$5.65 per hour

Guaranteed weekly salary for 40 hours.
Commissions are paid.
Overtime one and a half over 40 hours and Saturday.

SAN FRANCISCO

Route operator	$248.50 per week

Guaranteed weekly salary for 40 hours.
Commissions are paid.
Overtime one and a half over 40 hours.
Double time—Saturday and Sunday.

SEATTLE

Commissions paid	8 per cent
Linen supply	14 per cent
Customer-owned merchandise	15 per cent

Work week of 40 hours, five days.
Overtime one and a half over 40 hours and Saturday.

FRINGE BENEFITS

ATLANTA

Eight days sick leave; jury duty; three days funeral leave; health & welfare $13.50 weekly.

BALTIMORE

Five days sick leave; funeral leave.
Pension $7.40 weekly; health and accident insurance, $16.85 weekly.

BIRMINGHAM

Fifteen days' sick leave or one half pay for each day not taken; three days' funeral leave; jury duty.
Health and welfare benefits provided.

BOSTON

Three-day non-accumulative sick leave; three days' funeral leave; jury duty.
Pension $70 weekly; health and welfare, eye, accidental death and dismemberment, dental, insurance $24.70 weekly.

BUFFALO

Sick leave; funeral leave; jury duty. Health and welfare benefits provided.

CHICAGO

Three days bereavement pay; jury duty; pension, $17 weekly; health and welfare, $11.50 weekly.

CINCINNATI

Three days of emergency non-accumulative leave. Pension plan, $10 weekly; health and welfare $71.06 monthly.

DETROIT

Six days' sick leave. May be taken following year or receive cash payment.
Three days' funeral leave. For jury duty employee receives difference between jury duty pay and weekly wage guarantee. Welfare fund, $20 weekly; pension fund, $22.50 weekly.

HOUSTON

Cummulative sick leave is one day per month up to 24 months; three days' funeral leave; jury duty leave; pension plan, $8 weekly; health and welfare provided.

INDIANAPOLIS

Military leave; pension, $8 weekly; health and accident, $10 weekly.

KANSAS CITY

Funeral leave, military leave. Pensions $22 weekly, health and welfare $13.50 weekly.

LOS ANGELES

Five days' sick leave cummulative to 45 days, three days funeral leave.
Pension, $16 weekly; health and accident, dental, $13.80 weekly.

MIAMI

Six days' sick leave with attendance bonus for unused time; three days' funeral leave; jury duty.
Pension $6.00 weekly. Health and welfare provided.

MILWAUKEE

Sick leave; funeral leave; pension. Health and welfare provided.

NEW YORK

Six days sick leave; three days' funeral leave.
Pension, Health and welfare provided.

PITTSBURGH

Six days' sick leave; jury duty leave; three days' funeral leave.
Pension, $22.00 weekly; health and accident provided.

PORTLAND

Sick leave, jury duty, funeral leave provided.
Pension $14 weekly; health and welfare, $13.50 weekly.

ST. LOUIS

Sick leave, funeral leave, military leave provided.
Pension, health and accident provided.

SAN FRANCISCO

Sick leave, funeral leave, military leave provided.
Pension, health and welfare provided.

SEATTLE

Four days' sick leave, two days' funeral leave.
Pension, health and welfare provided; also dental and optometry.

VACATIONS AND HOLIDAYS

ATLANTA

One week after one year; two weeks after two years, three weeks after 10 years; four weeks after 18 years.
Seven paid holidays; must work full holiday week.

BALTIMORE

One week after one year; two weeks after three years, three weeks after 10 years; four weeks after 18 years.
Six paid holidays; must work day immediately preceding and following.

BIRMINGHAM

One week after one year; two weeks after two years; three weeks after 10 years; four weeks after 18 years.
Seven paid holidays; must work full holiday week.

BOSTON

One week after one year; two weeks after two years; three weeks after 10 years; four weeks after 20 years.
Ten paid holidays.

BUFFALO

One week after one year; two weeks after three years; three weeks after 8 years; four weeks after 14 years.
Seven paid holidays; must work full holiday week.

CHICAGO

One week after one year; two weeks after two years; three weeks after 10 years; four weeks after 15 years.
Seven paid holidays; must work last scheduled day before and first scheduled day after.

CINCINNATI

One week after one year; two weeks after three years; three weeks after 10 years.
Six paid holidays.

DETROIT

One week after one year; two weeks after two years; three weeks after nine years; four weeks after 15 years; five weeks after 27 years.
Six holidays, plus two for Jewish employees.

HOUSTON

One week after one year; two weeks after two years; three weeks after 10 years; four weeks after 20 years.
Six paid holidays.

INDIANAPOLIS

One week after one year; two weeks after three years; three weeks after 10 years; four weeks after 18 years.
Six paid holidays; must work scheduled day before and after.

KANSAS CITY

One week after one year; two weeks after three years; three weeks after 15 years; four weeks after 25 years.
Six paid holidays; must be available for all hours offered during week.

LOS ANGELES

One week after one year; two weeks after two years; three weeks after five years; four weeks after 14 years.
Seven paid holidays; must work full holiday week.

MIAMI

One week after one year; two weeks after two years; three weeks after 10 years.
Seven paid holidays; must work scheduled day before and after.

MILWAUKEE

One week after one year; two weeks after three years; three weeks after 7 years; four weeks after 14 years.
Six paid holidays; must work scheduled day before and after.

NEW YORK

One week after one year; two weeks after three years; three weeks after 10 years.
Seven paid holidays; must work holiday week.

PITTSBURGH

Two weeks after one year; three weeks after nine years; four weeks after 15 years; five weeks after 25 years.
Eight paid holidays; must work day before and after.

PORTLAND

One week after one year; two weeks after two years; three weeks after 9 years; four weeks after 20 years.
Six paid holidays; must work day before and after.

ST. LOUIS

One week after one year; two weeks after three years; three weeks after 10 years.
Seven paid holidays; must work day before and after.

SAN FRANCISCO

One week after one year; two weeks after two years; three weeks after three years; four weeks after eight years; five weeks after 20 years.
Nine paid holidays; must work holiday week.

SEATTLE

One week after one year; two weeks after three years; three weeks after seven years; four weeks after 15 years.
Seven paid holidays; must work holiday week.

UNION AND DURATION OF CONTRACT

ATLANTA
International Brotherhood of Teamsters. October 1, 1975 — September 30, 1978. Handled by negotiation between company and union.

BALTIMORE
Local No. 622 International Brotherhood of Teamsters. Nov. 1, 1974 — Oct. 31, 1977. Handled by negotiation between company and union.

BIRMINGHAM
Local No. 612 International Brotherhood of Teamsters. Dec. 31, 1972 — Dec. 31, 1975. Handled by multi-employer bargaining group.

BOSTON
Local No. 25 International Brotherhood of Teamsters, April 23, 1975—April 23, 1979. Handled by multi-employer bargaining group.

BUFFALO
International Brotherhood of Teamsters — May 1, 1976 - April 30, 1979. Handled by negotiation between company and union.

CHICAGO
Local No. 712 Laundry, Dye House, Cleaning, Drivers, Chauffeurs, Handlers, Solicitors & Salesmen. May 1, 1975 — April 30, 1977. Handled by multi-employer bargaining group.

CINCINNATI
Local No. 185 Laundry, Linen & Cleaning Drivers Union, March 1, 1973 — Feb. 29, 1976. Automatically extended for one year unless 60 days notice is given.

DETROIT
Local No. 285 International Brotherhood of Teamsters, April 19, 1975 — April 16, 1977. Handled by multi-employer bargaining group. Automatically extended from year to year unless 60 days notice is given.

HOUSTON
Sales Drivers, Deliverymen, Warehousemen & Helpers. Feb. 8, 1974 — Feb. 7, 1977.

INDIANAPOLIS
Local No. 135 International Brotherhood of Teamsters. April 30, 1973 — Dec. 4, 1976. Handled by multi-employer bargaining group.

KANSAS CITY
Local No. 335 International Brotherhood of Teamsters. April 2, 1976 — April 3, 1979. Handled by multi-employer bargaining group.

LOS ANGELES
Locals No. 928, 88, 871, 952 International Brotherhood of Teamsters. June 2, 1975 — June 4, 1978. Handled by multi-employer Textile Rental Services Association.

MIAMI
Local No. 198 International Brotherhood of Teamsters. Jan. 1, 1974 — Dec. 31, 1976.

MILWAUKEE
Local 344 International Brotherhood of Teamsters — August 1, 1973 - July 31, 1976. Handled by multi-employers group.

NEW YORK
Amalgamated Service—Allied Industries Joint Board, Dec. 1, 1975—Nov. 30, 1978.

PITTSBURGH
Local No. 249 International Brotherhood of Teamsters; March 15, 1974 — March 14, 1977. Handled by multi-employer bargaining group.

PORTLAND
Local No. 281, International Brotherhood of Teamsters. May 1, 1975 — April 30, 1977. Handled by multi-employer bargaining group.

ST. LOUIS
Local 682 International Brotherhood of Teamsters, Fe* 1974—Dec. 1, 1976. Handled by multi-employer bargaining group.

SAN FRANCISCO
International Brotherhood of Teamsters, June, 1973 — Nov. 1, 1975.

SEATTLE
Local No. 566 International Brotherhood of Teamsters, May, 1974 — Nov. 21, 1976.

GRIEVANCES, ARBITRATION, ETC.

	Atlanta	Baltimore	Birmingham	Boston	Buffalo	Chicago	Cincinnati	Detroit	Houston	Indianapolis	Kansas City	Los Angeles	Miami	Milwaukee	New York	Pittsburgh	Portland	St. Louis	San Francisco	Seattle
Management rights clause	Yes	No	Yes	Yes	Yes	No	No	—	—	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No	No
Grievance procedure	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of steps	5	2	2	3	2	4	—	2	2	3	3	4	3	2	—	2	2	4	3	3
Arbitration	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Arbitration selection	Mutual Agm't	Mutual Agm't	Mutual Agm't	1*	1*	3*	4*	5*	7*	Board	7*	8*	3*	4*	App't	5*	Mutual Agm't	3*	9*	10*
No-strike provision	Yes	No	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	Yes	—	Yes	Yes	Yes	No	No
Limited	—	—	—	Yes	Yes	—	—	—	—	—	Yes	—	—	—	—	—	—	—	—	—
Unlimited	—	—	—	—	—	—	—	Yes	—	—	—	—	—	—	—	Yes	Yes	—	—	—
Provisions	—	—	—	2*	—	—	—	6*	—	—	7*	—	—	—	—	—	—	—	—	—
Non-discrimination provision	Yes	Yes	No	Yes	Yes	No	No	—	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No

1* Between parties involved. If not agreed upon then to American Arbitration Association.
2* Failure by company to comply with arbitration decision.
3* Union and employee jointly request Federal Mediation and Conciliation Service to list seven arbitrators. Union strikes three, company strikes three and remaining person becomes arbitrator.
4* Three person arbitration — one from union, one from employer, one jointly.
5* Joint grievance committee made up of equal number from industry and union. Arbitration board has one from employer, one from union and one neutral.
6* No strike during arbitration. May strike if employer refuses to submit to arbitration.
7* Union and employer jointly request Federal Mediation and Conciliation Service to list five arbitrators. Union strikes two, company strikes two and remaining person becomes arbitrator.
8* Federal Mediation and Conciliation Service.
9* Appointed and rotated.
10* Industry review board.

INSIDE WORKERS IN TEXTILE RENTAL AS OF JULY 1976

HOURLY WAGE RATES

JOB TITLES	Atlanta	Baltimore	Birmingham	Boston	Buffalo	Chicago	Cincinnati	Detroit	Fort Worth	Houston
Washman-Head	3.15	2.70	2.95	3.05	3.29	3.10	2.80	3.92	3.05	3.02
Washman-Helper	3.10	2.55	2.93	3.00	3.10	3.00	2.75	—	3.00	2.70
Pullers/Loaders	3.13	2.40	2.93	2.85	3.10	2.75	2.50	3.62	3.03	2.55
Extractors	3.13	2.40	2.93	2.85	3.10	2.75	2.50	2.97	3.03	2.58
Dryer operators	2.57	2.40	2.93	2.85	3.10	2.75	2.50	2.97	2.47	2.90
Shakers, Feeders, Folders	2.50	2.40	2.30	2.85	2.875	2.75	2.50	2.97	2.40	2.20
Press Operators	2.50	2.40	2.30	2.85	2.875	2.75	2.53	2.97	2.40	2.20
Soilsorter, Counter	2.57	2.40	2.35	2.85	3.10	2.75	2.53	2.97	2.47	2.25
Seamstress	2.59	2.40	2.39	2.85	2.875	2.75	2.43	2.97	2.49	2.25
Garment Loader	3.13	2.40	2.43	2.85	2.875	2.75	2.53	2.97	3.03	2.20

REGULAR HOURS AND OVERTIME PAY

Guaranteed Work Week	No	No	No	No	Yes	No	No	No	No	Yes
Number of Hours	40	40	40	40	40	40	40	40	40	40
Number of Days a Week	5	5	5	5	5	5	5	5	5	5
Overtime Pay	x1½	x1½	x1½	x1½	x1½	x1½	x1½	x1½	x1½	x1½
Sunday Pay	x2	x1½	x2	x2	x2	x2	x2	x1½	x2	x2

FRINGE BENEFITS AND OTHER PROVISIONS

Paid Holidays	7	7	6	11	9	7	7	8	7	6
Conditions govern. Holiday pay	Part of holiday week	Before & after	Work holiday week	Before & after	Before & after	Before & after	Before & after	Before & after	Part of holiday week	Before & after
Special Leave	Yes	Yes	Yes	Sickness	Yes	—	Yes	Yes	Yes	Yes
Provisions for Health & Welfare	Yes	Yes	Yes	$10 mo.	Yes	$3.75 wk.	$2 mo.	$16.50 mo.	Yes	Yes
Health & Accidents	Yes	$10 mo.	Yes	$13.50 mo.	$8.55 wk.	$4.25 wk.	$5.33 mo.	—	Yes	Yes
Other Fringe Benefits	—	—	—	2-10 min. Breaks	—	—	—	—	—	2-10 min. Breaks
Management Rights Clause	Yes	Yes	Yes	Yes	Yes	—	Yes	Yes	Yes	Yes
Grievance Procedure	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Arbitration & How Selected	List from FMCS	Mutually or Am. Arb Assoc.	Mutually or FMCS	Mutually or State Board	Mutually	2 Union 2 Assoc.	1 company 1 union, & 1 mutually	Mutually or FMCS	List from FMCS	1 company 1 union & 1 mutually
No strike Provisions	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Non Discrimination Provision	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	Yes
Name of Union	Ldry., D.C. & Dye House Local 218	Ldry. & D.C. Local 195	Ldry., D.C. & Dye House Local 218	Ldry. & D.C. Local 66	Ldry. & D.C. Local 168	Ldry., D.C. & Dye House Local 46	Ldry. & D.C. Local 248	Ldry., D.C. & Dye House Local 129	Ldry., D.C. & Dye House Local 218	Ldry. & D.C. Local 131
Date Contract Signed	12/15/73	12/74	1/71	9/29/75	10/73	11/15/74	6/8/73	11/3/74	12/15/73	2/13/74
Expiration Date	12/16/76	11/12/77	1/15/76	9/30/78	10/76	11/15/77	6/7/76	11/4/77	12/16/77	1/31/77

INSIDE WORKERS IN TEXTILE RENTAL AS OF JULY 1976

HOURLY WAGE RATES

JOB TITLES	Indianapolis	Kansas City	Los Angeles	Miami	Milwaukee	New York	Pittsburgh	Portland	St. Louis	San Francisco	Seattle
Washman-Head	2.45	2.30	3.90	3.15	3.53	3.15	3.66	3.87	3.20	3.96	4.05
Washman-Helper	2.45	2.30	3.40	3.05	3.41	2.90	3.41	3.77	2.80	3.61	2.93
Pullers/Loaders	2.45	2.30	3.20	3.95	3.41	2.65	3.20	2.94	2.80	3.59	2.93
Extractors	2.45	2.30	3.20	3.05	3.41	2.65	3.20	3.70	3.15	3.71	3.95
Dryer Operators	2.45	2.30	2.90	3.05	3.41	2.65	3.20	2.94	2.80	3.21	2.93
Shakers, Feeders, Folders	2.45	2.30	2.90	2.50	3.01	2.65	3.20	2.90	2.80	3.03	2.93
Press Operators	2.45	2.30	3.10	2.50	3.24	2.65	3.20	3.00	2.86	3.07	2.93
Soilsorter Counter	2.45	2.30	3.00	2.55	3.06	2.65	3.20	3.00	2.80	3.06	3.04
Seamstress	2.45	2.30	2.90	2.70	—	2.65	3.20	2.92	2.93	3.04	2.93
Garment Loader	2.45	2.30	2.90	2.70	3.03	2.65	3.20	2.95	2.80	3.59	2.93

REGULAR HOURS AND OVERTIME PAY

Guaranteed Work Week	No	No	Yes	Yes	No	Yes	No	No	No	Yes	Yes
Number of Hours a Week	No	No	40	38	40	40	40	40	40	40	40
Number of Days a Week	No	No	5	5	5	5	5	5	5	5	5
Overtime Pay	x1½	x1½	x1½	x1½	x1½	x1½	x1½	x1½	x1½	x1½	x1½
Sunday Pay	x1½	x1½	x1½	x1½	x1½	x1½	x2	x2	x1½	x1½	x1½

FRINGE BENEFITS AND OTHER PROVISIONS

Paid Holidays	6	6	7	7	7½	7	8	6	7	8	7
Conditions govern holiday pay	Before & after	Work holiday week	Work holiday week	Work holiday week	Before & after	Work holiday week	Before & after	Before & after	Before & after	Work holiday week	Work holiday week
Special Leave	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Provisions for Health & Welfare	Yes	—	$5.00	Yes	Yes	Yes	—	$17.30 mo.	20¢ hour	Yes	Yes
Health & Accidents	$12.65 mo.	Yes	$17.00 mo.	$9.60 mo.	Yes	Yes	$6.20 wk.	$12.30 mo.	$14.40 mo.	Yes	Yes
Other Fringe Benefits	2-10 min. Breaks	-	—	—	—	Yes	2-10 min. Breaks	—	—	—	—
Management Rights Clause	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	Yes
Grievance Procedure	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Arbitration & How Selected	List from FMCS	Mutually	FMCS	Mutually or FMCS	1 company 1 union 1 mutually	Permanent Arbitrator	Mutually	Mutually or FMCS	Alt. Striking of Names	Mutually	Permanent Arbitrator
No Strike Provisions	Yes	Yes	Yes	Yes	No	—	Yes	Yes	Yes	No	Yes
Non Discrimination Provision	Yes	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No
Name of Union	Ldry & DC Local 3617	Ldry & DC Local 738	Ldry & DC Local 52	dye House ocal 218	Ldry Workers Local 3008	Amalgamated Service and Allied Ind	Ldry & DC Local 141	Ldry DC & Dye House Local 157	Ldry Workers Local 108	Ldry Workers Local 25	Ldry, DC & Dye House Local 24
Date Contract Signed	5/1/74	3/1/75	6/1/75	2/1/74	2/1/75	12/1/75	11/1/74	5/1/75	12/1/73	12/1/74	9/14/73
Expiration Date	1/29/77	4/1/78	6/1/78	2/15/77	1/31/77	11/15/78	10/31/77	11/1/77	11/30/77	11/30/77	9/14/76

SPEECH PRESENTED BY DONALD L. STRUMINGER, PRESIDENT, LINEN SUPPLY ASSOCIATION OF AMERICA, TO THE COMMITTEE ON EDUCATION AND LABOR, SUBCOMMITTEE ON LABOR STANDARDS, MARCH 24, 1977

Thank you, Mr. Chairman, for the opportunity to appear here today. Rather than to read to you the complete statement we have prepared, I would prefer to summarize for you the major points. It outlines some rather valid concepts and I think you will find it interesting reading. Please, Mr. Chairman, may I enter our position paper in its entirety on the record.

Thank you.

It is our understanding that the purpose of a hearing, such as this, is to determine what takes place realistically—in the field so to speak—as a result of Federal Legislation. Everybody has their own theory, but only by talking to the "grass roots," the people that live with the legislation, can you truly find out what really happens.

The Linen Supply Industry was essentially first covered by the Fair Labor Standards Act on an extensive basis beginning in February of 1967. From 1967, thru 1972, the latest year of government statistics figures our industry sales grew by over $500 million—an increase of 68 percent. We believe that we have maintained or increased our market share during this period, as the Consumer Price Index rose only 70 percent during the same period.

During these same years, 121 firms in our industry—8.4 percent (mainly small businesses) have gone out of business. Further, in the same five-year period—and because of rising minimum wages—we have decreased employment by some 28 percent. In 1972, we had 1,885 fewer employees than we employed in 1967.

At this point, may I introduce two charts which I believe will graphically illustrate the relationship between Minimum Wage—Linen Supply Sales—and Linen Supply Employment and the relationship between Minimum Wage—Linen Supply Employment—and Cost of Production per unit processed.

Let me describe our industry to you . . .

The Linen Supply Industry is an energy efficient recycling industry servicing hygienically cleaned textiles and protecting the health of our communities. (Repeat)

What does this really mean? It means, that if the Linen Supply industry did not exist, and if the same volumes of laundry that we processed, and remember every man, woman and child soils linens every day, were cleaned and dried in home-size washers and dryers, it would require 98 percent more energy, 70 percent more water, 900 percent more detergents, than we use in our large-scale, mass production equipment. At a time of energy shortage, and the necessity to conserve our natural resources, it is important that we do whatever we can do to reduce energy consumption.

Our Nation has established a level of cleanliness that has contributed greatly to the elimination of many of the health problems we were plagued with many years ago. Our industry has helped establish that level of cleanliness.

Our industry recycles linen and therefore conserves our national resources and eliminates the need for disposables and their effect on our environment. Specifically, we save our forests from the paper manufacturers. We use recyclable textiles principally made of cotton grown by our Nation's farms.

Most of the approximately 65,000 employees in our industry are at, or near the minimum wage, and are considered unskilled or semi-skilled laborers.

Before our industry was covered under minimum wage, we had a growing number of companies hiring an ever growing number of employees. After we were covered by minimum wage, we had a decrease in the number of companies and a net decrease in employment.

For example: In 1967, the New York City Manhattan Yellow Pages listed 67 Linen and Towel Supply Companies; there were only 27 companies listed in 1976.

If minimum wages continue to rise, this trend will continue: There will be fewer companies—hiring fewer people.

More and more of our industry's firms will automate in an attempt to reduce labor content.

Yet, at the same time, fewer numbers of firms will be able to afford the capital investment required to automate and compete.

The net effect will be a decrease in the number of people employed and only the larger companies will survive.

Our present customers can do their own laundry—either in small, less energy efficient, on-premise laundry equipment or in home laundry equipment.

The results will be an even greater total energy use and water consumption—and an even greater pollution to our Nation's waterways because of increased usage of laundry supplies.

There will also be an increase in the use of synthetic polyester fiber materials, which are made from oil, rather than the use of cotton which is grown on our Nation's farms.

Let us take a look at an excellent example of an industry put out of business by minimum wage and "do it yourself."

My illustration is a sister industry, the family and commercial power laundries. In 1963 there were 10,505 power laundries, with 190,501 employees. In 1972, the last official government figures, the number of power laundries has been reduced to 3,094 with 80,688 employees. This is dramatic. A reduction or elimination of 6,400 plants and 110,000 employees.

At the same time, Automat-Coin Operated Laundries increased from 9,669 in 1963 to 17,550 in 1972. The cost of sending your laundry out became too high and people began to do it themselves to save money.

In summary:

(1) Conduct a separate study on the effects of employee dislocation due to rising minimum wages in the service industries.

By definition, a "service" is something you can do for yourself but would rather have done by someone else if it doesn't cost too much. Service industries are far more "labor-intensive" than manufacturing industries.

Please refer to the chart included in our paper which dramatically shows, based on published government figures the relationship between wages/hour—Consumer Price Index—and Productivity. It is obvious that all three merge together in 1967 and then sharply divide. Wages/hour and Consumer Price Index rise together while Productivity falls substantially behind.

According to the Department of Commerce's publication, "U.S. Industrial Outlook of 1977", there were approximately 827,000 employees employed in the "Personal Services" industry sector in 1976. This is 19% below 1967 employment levels of 1,028,000, a decrease of 193,000 employees in the 10 years since minimum wage first became applicable to many of the firms in the Personal Services sector.

(2) Our industry has reduced health care cost. According to a recent study conducted by the American Hospital Association, 45% of hospitals were served their laundry requirements by outside textile maintenance service companies. Any change in the minimum wage structure will increase the cost of health care. A rising or indexed minimum wage will continue and intensify the inflationary effect on health care costs.

(3) Indexing the minimum wage to any index is inflationary. Many of the sales of the Linen Supply Industry are made under customer contracts for periods of from one to three years, to protect our members companies' investment in linen and garments.

An index of the minimum wage would be a built-in escalator for our costs. As a result, we would be forced to put automatic cost escalation provisions into our customer contracts. The result would be automatic inflation.

(4) The minimum wage in our industry forms the base from which we determine other wages, based on skill levels and levels of responsibility. If the minimum wage rises, all wage levels will also rise until there will be the same relative differential in wages based on skill levels and levels of responsibility, as had existed in the past. Anyone who doesn't believe this is kidding themselves.

(5) A rising minimum wage often benefits only union negotiators who use the minimum wage as a guide—a benchmark for a negotiated settlement in wage increases. It has been our experience that if minimum wage rises 35 cents per hour, union negotiators will ask for 35-plus cents per hour to justify their representation of their union members. From experience with 30 contract negotiations in the last ten years in this industry, minimum wage is always discussed and the floor for union bargaining.

(6) In a labor-intensive service industry, productivity is generally based on the capacity and skill of the individual employee. Assuming that employees are working at or near full capacity makes increases of productivity far less likely in the service industries than in the manufacturing industries.

Ways other than minimum wage increases must be found to compensate workers, so that their total compensation will be at or above the poverty level.

But, let us not tell our current workers—good and currently productive people—that they are no longer economically productive, because we can no longer afford a higher minimum wage. Let us not de-humanize a major portion of society by telling workers that they are now unemployable.

We must get back to work. Let us remain as an energy efficient recycling industry that can hire people and keep them busy, instead of replacing people with machines. Although the minimum wage legislation's concept is to help the less skilled worker, any increase in the minimum wage would accomplish exactly the opposite result in our industry—and cause an even greater burden on our welfare rolls of low-skilled and unskilled minority workers.

Gentlemen, I look forward to answering any questions that you may have.

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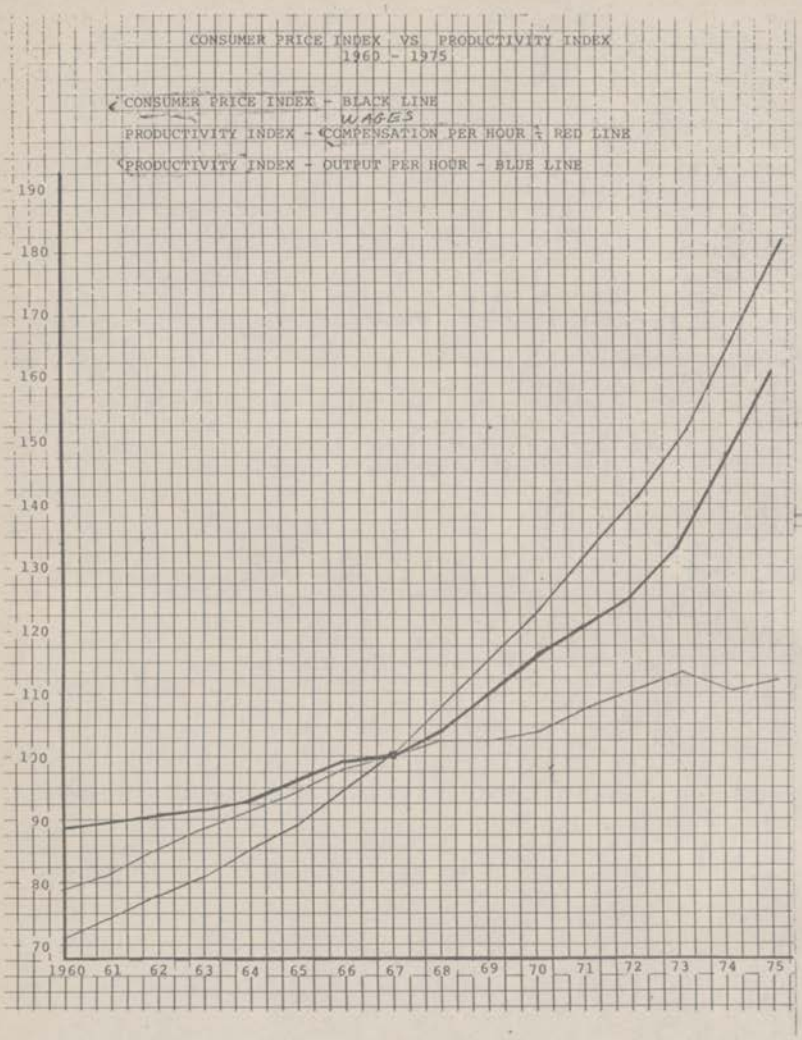
CONSUMER PRICE INDEX VS. PRODUCTIVITY INDEX
1960 - 1975
CONSUMER PRICE INDEX - BLACK LINE
WAGES
PRODUCTIVITY INDEX - COMPENSATION PER HOUR - RED LINE
PRODUCTIVITY INDEX - OUTPUT PER HOUR - BLUE LINE
190
180
170
160
150
140
130
120
110
100
90
80
70
1960 61 62 63 64 65 66 67 68 69 70 71 72 73 74 75

The CHAIRMAN. The hearing is now in recess.
[Whereupon, at 1:40 p.m., the hearing was recessed.]

FAIR LABOR STANDARDS AMENDMENTS OF 1977

WEDNESDAY, AUGUST 3, 1977

U.S. SENATE,
SUBCOMMITTEE ON LABOR OF THE
COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:18 a.m., in room 4232, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman) presiding.

Present: Senators Williams, Javits, Hatch, Hayakawa, and Stafford.

The CHAIRMAN. The Subcommittee on Labor will please come to order.

This morning we are happy to welcome a panel of economists testifying on the effects of minimum wage. After studying views of economists over a number of years, including the views of some of those testifying here today, I regard the economic arguments surrounding minimum wage as extremely interesting and most complex.

The committee will strive, as it has in the past, to grapple with these principles. This is difficult ground and we are grateful to be practicing economists who have agreed to be here today to provide us with their guidance.

I have a vague recollection of something Harry Truman said that might be appropriate—Bob Nathan will tell me whether it is accurate—when President Truman observed that "If all the economists in the Government were laid end to end, they would still point in all directions."

Is that right, Bob?

Levity aside, these are difficult and serious issues and we are looking forward to receiving the very important assistance of our distinguished witnesses today.

Senator Javits and I have gone over 99 percent of the testimony on minimum wage in the last years, and here we are again. The staff with great judicial balance has organized the hearing this morning into two panels. The first three economists are supporters of the minimum wage; the next three, in opposition to the minimum wage.

The first panel is Mr. Robert R. Nathan, Robert Nathan Associates, Inc.; Dr. Walter Galenson, Cornell University; and Dr. Sar Levitan, George Washington University.

Gentlemen, welcome back to familiar grounds. I am looking forward to this.

Mr. Nathan, you are in position to be the lead witness for the panel, and we appreciate your being here.

STATEMENTS OF ROBERT R. NATHAN, ROBERT R. NATHAN ASSOCIATES, INC., DR. WALTER GALENSON, CORNELL UNIVERSITY, AND DR. SAR LEVITAN, GEORGE WASHINGTON UNIVERSITY, A PANEL

Mr. NATHAN. Thank you very much, Mr. Chairman.

I do appreciate this opportunity.

First, let me say that I do not think anybody ever intended that economists do agree. It is useful that they do point in all directions, although I would hope that there be some consensus and that difference of views would not represent the entire area of issues.

The subject of minimum wages is one that has been under consideration and battled up and down now for 40 years. We are getting new argument and new views expressed which, in some ways, is rather distressing and some ways rather surprising.

First, let me just make one general observation about the nature of this legislation in summary form, because I have figures and observations in my written testimony which I will not read.

Namely, that this legislation has as its primary purpose preserving the value of the minimum wage which has been in existence for nearly 40 years, and also trying to establish a new approach to dealing with the subject in the future. And I have attached to my testimony three very brief tables to which I would like to refer. After the eighth page of my testimony, the first table shows the changes in minimum wages each time a change became effective in the last 16 years. We see that we came up with $1.15 in 1961, that was the new minimum in September 1961, a lot higher, of course, than the 25 cents back in 1938. But we have come up from that $1.15 to $2.30, which is the present prevailing rate which became effective in January 1976.

I have also shown in the last column the conversion of those nominal or current dollar figures, on the basis of the Consumer Price Index, to a 1961 base, and there we see, in essence, the minimum wage has not truly kept pace with rising costs in every instance. At the moment, in June 1977, which was the latest month for which we had price data, we see the purchasing power of that minimum wage in 1961 dollars was $1.14. So here, 16 years later, the buying power of the minimum wage is just about what it was 16 years earlier.

Now, if the minimum wage does go into effect at $2.65 in January 1978, and if the Consumer Price Index rises 3 percent within the next 6 months, which I think is a modest expectation, then the purchasing power in terms of 1961 dollars next January will be $1.27, the last figure in the lower right-hand column. That figure is below the minimum that was introduced in 1967. It is below the minimum in February 1968, and it is just a little above the minimum that went into effect in May 1974, and also in January 1975, and January 1976.

Now, this does raise the question about what the purpose of the minimum wage is. I would, at this point, Mr. Chairman and members of the committee, like to say that I strongly favor the indexing provision because it does seem to me appropriate for the minimum wage level to take into consideration improvement factors in our economy.

In other words, over the years there is a tendency for average wages to rise, that is, over a long period of time. Over the long range there is a tendency for the buying power—the real income of the worker—to rise because of improved productivity, improved efficiency in the econ-

omy. That is appropriate. And that rise in the last 16 years has been rather modest. In table 2, I show the average straight time hourly earnings in manufacturing and we see that the purchasing power of the average hourly earnings in table 2 has risen from $2.25 in 1961 to $2.66 in 1961 prices in June 1977. This means that over the 16 years, the real buying power of the average hourly earnings in manufacturing has risen 18 percent, or just a little over 1 percent a year.

Now, I believe that we ought also to give an opportunity to share in progress to those at the lowest income level, at the very low income level. For that reason, I think the indexing that relates the minimum level to the average return of those who are working in manufacturing is an appropriate measure because it does take into account rises both in the cost of living and the improvement factor.

Now, lest someone believes that this indexing is a very generous contribution to the minimum wage, let me point out to this committee that the very process that has been spelled out in this bill is on the whole rather conservative because, as we recall in the bill, the minimum wage on January 1, 1979, will be 52 percent of the average straight time hourly earnings of production workers for the year ending June 1978.

Now, if wages tend to rise fairly steadily throughout the year, that means there is a full year's lag in applying the index. In other words, that 12-month average for the year ending June 1978 would tend to center on December of 1977 or January of 1978 so that the 52 percent of the prevailing wage would apply in essence to the December 1977 or January 1978 average hourly earnings, and that would then be put into effect in January 1979. And the same thing is true for January 1980. And if the cost of living tends to rise, say, 7 percent annually, or wages rise 7 percent, what in essence we are saying is that on this first January when the index applies, in January 1980, the actual average of hourly earnings for that month will be substantially higher than the one used as a base and, for all intents and purposes, the current ratio will be a little lower than 50 percent.

I emphasize that because I think that indicates the modest nature of adjustment.

Senator JAVITS. May I ask for one thing for clarification on facts? You have been speaking of the Consumer Price Index, but the average is for the hourly average manufacturing wage.

Could you explain that?

Mr. NATHAN. Yes.

The average manufacturing wage does encompass both the pursuit of real buying power by the workers in negotiations with employers and also the improvement factor that arises out of the negotiations with employers.

Senator Javits, actually today in manufacturing, a very, very substantial part of the results of negotiations do include the cost of living adjustment.

In other words, the living cost factor is adjusted in many, many of these industries, and increasingly this adjustment is tending to be on a one for one basis.

Earlier—in earlier years, there used to be a cost of living adjustment which was less than proportionate to price increases, but negotiation has tended to make that ratio increasingly near proportionate to rises in the cost of living.

Now, when the unions negotiate with employers, they also seek to try to get a little more than their cost of living adjustment and, therefore, they get more than a cost of living factor. In essence, by using the average earnings, you are getting indirectly a reflection largely with the cost of living plus the improvement factor.

Now, let me make just two other brief observations. One has to do with inflation. I have just completed some testimony for the Senate Banking Committee on inflation in which I indicate that, in my judgment, inflation is a cancer on our economy, and it is a malignancy that is destroying us, and we have to fight inflation. And very frankly I do not think we are engaged in a sufficiently tough anti-inflation program. And I would be glad to submit that testimony to this committee as well.

I am very much against inflation, but, Mr. Chairman and members of the committee, I am equally adamant that in the fight against inflation, we do not throw the burden on those who are least able to handle that burden.

When we look at how the minimum wage has not kept pace with the cost of living and say that we should not raise the level, it is, in my judgment, cynical. So I would accept what Secretary Marshall stated, namely that the minimum wage would tend to increase labor costs by about four-tenths of 1 percent. I think that is a modest price to pay for not allowing the burden of inflation to fall primarily on the lowest income persons.

Finally, the big subject this year seems to be the one on youth employment, minorities and the like. And my position is that this legislation ought not include a separate minimum wage for unskilled people, for two or three reasons.

Most important is that the problem today is not too high a wage for young people. The problem is 7 million unemployed. I, as an employer, would—will—certainly favor hiring those who are more skilled, those who are more experienced, those who are more mature in my seeking to fill a job than to hire the totally unskilled person.

Obviously, those who are at the bottom of the scale are going to have the greatest difficulty of getting the jobs.

In the mid and late 1960's, when we had relatively full employment for a good part of those years after 1963 and 1964, the unemployment rate among the young people was higher, and I think it would continue to be higher than the average. But it is nothing like it is today.

It is strange to state or to imply that we can solve the youth unemployment problem by the minimum wage. In my judgment, what we have to do is try to get the economy up nearer fuller levels of employment and not fight inflation with recession.

Second, as far as the youth are concerned, I believe that recent new legislation offers a possibility of improvement. We ought to emphasize help to the young people in terms of Government job opportunities, training and the like.

Third, I do believe very importantly that what we ought to do is to cooperate closely between Government and business to try to stimulate and encourage employment of young people because they are going to be the employees and employers of the future.

But I do not think, gentlemen, that the answer lies in a lower minimum wage for these young people. And I must say that those businesses who come and say that they are talking in the main interest of the young people in urging a lower minimum wage, in my judgment, are talking about real discrimination. And I sort of feel it is like the fox telling the farmer not to watch the chicken house because the chickens will lose their self-respect.

I just feel that the approach to this problem of a lower economic wage makes no sense.

Thank you.

[The prepared statement of Mr. Nathan follows:]

Testimony of Robert R. Nathan, Consulting Economist and
Chairman of the National Consumers League

before the

Subcommittee on Labor of the

Senate Committee on Human Resources

on S. 1871

to Amend the Minimum Wage Provisions
of the Fair Labor Standards Act

August 3, 1977

I am grateful for the opportunity to testify in support of S. 1871. The two principal purposes of the bill are to increase the minimum wage rate under the Fair Labor Standards Act of 1938 and to provide a formula for maintaining the value of that minimum in relation to the average wage for manufacturing as a whole.

Essentially, the bill restores and maintains the purchasing power of previously intended benefits.

The principal features of S. 1871 would simply preserve benefits that this Government has repeatedly provided to American workers. Despite the widespread impression that the bill would substantially increase and otherwise expand minimum wage benefits, the new minimum wage rate would make only a moderate improvement in the current position of low-paid workers and it would bring the purchasing power level of the minimum to barely above the level in May 1974, when the first step increase under the last minimum wage amendment became effective. The indexing provision would simply protect the value of the new minimum wage from long-term erosion relative to average wages of productive workers in all manufacturing industries.

Repeated erosions
of the minimum wage.

Since its initial enactment in 1938, legislative actions have increased the minimum wage rate from 25 cents an hour to its current $2.30 an hour. The increases have been legislated irregularly and have served for the most part merely to restore the real value of previously enacted rates. As can be seen in Table 1, the purchasing power of each new minimum in the last 14 years, with the exception of February 1968, all fell within a narrow range of 6 percent.

Workers, especially the least experienced and those with lesser skills, have received real benefits from the minimum wage legislation since its enactment in 1938. Coverage was gradually broadened, and exploitation of workers through very low wages became less prevalent. The principle of minimum wage standards became widely accepted. These minimum standards have, in my judgment, been quite moderate. They have tended to cluster around half the average wage in manufacturing industries, sometimes exceeding that ratio when newly enacted minimums have become effective and then steadily declining until the next increase.

The record -- for example, from the September 1961 revisions to date -- gives a clear picture of the magnitude of the changes in nominal dollars and cents, in real purchasing power, and as a ratio to average straight-time hourly earnings in manufacturing. Tables 1 through 3 show these data as of the effective date of each minimum wage amendment starting in September 1961.

In September 1961 the average hourly straight-time wage for all production workers in manufacturing was $2.25; in June 1977 it was almost 2 1/2 times that rate. However, when corrected for inflation, the latter figure turns out to be $2.66 in 1961 dollars, which represents an increase of only 18 percent over these 16 years (approximately 1 percent per year when compounded on an annual basis). (See Table 2).

For the low-paid workers, intended to be the principal beneficiaries under the minimum wage law, the situation has been even less favorable. Despite six legislated increases since September 1961, the real value of the minimum wage has not increased from the $1.15 level initiated on that date. Indeed, it is a penny less in buying power today than it was 16 years ago. (See Table 1). If we assume that the new minimum will be $2.65 and will become effective January 1, 1978 and that consumer prices will rise moderately in the next six months, then the new level will be $1.27 in 1961 dollars, a ten-percent rise in 16 years. With continuing inflation, that margin will start to erode steadily. The innovative adjustment factor will limit that erosion and reduce the need for the frequency of legislative action that prevailed in the past.

Over the past 16 years, the incomes of lowest-paid workers have not kept pace with the general body of wage earners even though their earnings have been sustained by recurring upward revisions in the minimum wage. The ratio of the minimum wage to the average hourly straight-time earnings of production workers in manufacturing increased when new minimums were established and then declined. The trend has tended downward as the general level of wages has risen.

In making comparisons with the minimum wage, I have used the straight-time hourly earnings in manufacturing since it covers the dominant sector of the economy and since it is used for the bill's indexing formula. As seen in Table 3, the minimum in September 1961 was 51 percent of the defined average wage for manufacturing. It dropped down to 47 percent in January 1976, when the latest increase in the minimum became effective. It has since declined to 43 percent. Each time new minimums were introduced in the 1960s, the ratios were above 50 percent. It even reached more than 56 percent when the $1.60 minimum was first

made effective in February 1968. The combination of inflation and slowly rising real wages in manufacturing brought about the marked lag in the minimum wage level in recent years.

Too many workers in this country are still employed at wages too low to bring them up to poverty standards. The official poverty level for the 4-person nonfarm family was $5,500 a year in 1975. On an hourly basis, assuming 2080 hours of work per year, the need was $2.64 per hour for one worker in a 4-person family to reach the poverty level. That was virtually identical with the minimum wage rate to be established in January 1978 by this bill. But the cost of living has risen substantially since 1975. In fact, using the annual consumer price index forecast for 1977 in the Mid-session Review of the 1978 Budget, the poverty level will be just about $6,200 in 1977, which equates with an hourly rate needed for a lone worker in a family of 4 of $2.98. It is difficult to give much credence to arguments that a minimum of $2.65 for 1978 is excessively high when it is so much below that poverty level and very modest when compared with past minimums in terms of purchasing power.

Indexing

The indexing provision in the bill would do what the Congress has found necessary many times since the minimum wage law was enacted almost 40 years ago, namely, protect the value of the minimum wage from recurring absolute and relative erosions due to higher costs of living and to gradual increases in the real income of workers as productivity rises. The Congress would continue to have that power of adjustments after enactment of the bill, but it might not be called upon to act as frequently. The modest objective of preserving the purchasing value of the minimum wage would henceforth be accomplished automatically, regularly, and with administrative ease as long as the rise in average wages in manufacturing reflects at least adjustments for changes in consumer prices.

The time has certainly come to adopt an automatic adjustment mechanism for the lowest level of wages. Automatic cost-of-living adjustment procedures have been adopted in government and business to cover a large proportion of wage and salary workers. Certainly the most poorly paid American workers are entitled to at least as much protection from wage erosion as the more highly paid workers.

The particular indexing mechanism proposed in S. 1871 appears to me commendable because it will tend to protect not only against attrition of buying power because of inflation but it will assure that the lowest compensated workers share with other workers in the improvement factor that our productive economy makes possible. On the other hand, when real incomes might be reduced because of very high priced oil imports or other such factors, all workers, including those lowest paid, will share in that burden.

At first blush, the particular benchmark of 53 percent of average straight-time manufacturing wages for January 1980 may seem rather high, but in effect it will yield a modest result because the actual current ratio will be substantially less than 53 percent. The ratio has a built-in lag of approximately one full year.

For the transitional year 1979, the minimum wage on January 1 of that year will be 52 percent of the manufacturing average wage for the 12 months ending June 1978. The mid-point for that 12-month period would tend to be in December 1977 or January 1978, one full year before the ratio will be effective. Thus, the 52 percent will be applied to an average wage that prevailed one year earlier. Similarly, the 53-percent rate will be effective January 1, 1980 and re-established each January 1 thereafter, with the minimum wage to be 53 percent of the average manufacturing earnings figure for the 12-month period ending in

the preceding June. Assuming a 7-percent rate of increase in the average wage in manufacturing (which has been less than the rate of rise over the last several years), the 53-percent figure in the formula will mean that the January 1, 1980 minimum wage rate will be slightly less than 50 percent of the January 1, 1980 average manufacturing wage. The ratio will decline over the ensuing year until the ratio is again applied, and again with a substantial lag.

Inflation

The public policy objective of reducing the current rate of serious inflation does not serve to justify opposition to the enactment of S. 1871. We must curtail the malignancy of inflation, but it cannot and should not be achieved by cutting the buying power of the working poor.

The bill under consideration is essentially limited to preserving the real minimum wage. The upward dollar and cent adjustments in the minimum wage rate that will take place each January will tend to offset the attrition attributable to inflation and preserve the prescribed ratio of minimum wage rates to straight-time rates in manufacturing. I note that the Department of Labor has estimated the impact of this legislation to reflect a 0.4 percent increase in the wage bill as of each January 1 through 1981. Every increase in costs and prices should be a matter of concern in conducting the war on inflation. If the 0.4 percent is correct, it is a small price to pay in order to preserve real minimum wages for those workers at or below poverty levels and those most in need of relief from past and present inflation. We are doing precious little to bring down the rate of inflation and it would be ironical, if not cynical, to focus anti-inflation policies primarily on those least able to bear the burden of inflation.

Youth

The bill before the Committee is sound in not providing a lower minimum wage for young people than for covered workers in general. I certainly share the view that special efforts should be made to help young people and other groups that suffer exceptionally high unemployment rates, but I do not believe that setting a substandard minimum wage for them is a proper technique.

The massive unemployment of young people today is attributable in considerable measure to excessive levels of general unemployment. It is also traceable to a lack of specific skills and of inadequate basic education and little work experience.

When the economy has enjoyed relatively full employment in the past, most though not all younger and minority workers were able to find jobs and they learned their trades on the job. Their rate of unemployment was higher than the average of all workers, but it was manageable. Now, with 7 million unemployed plus others in the labor force working only part time or not currently seeking jobs because they do not believe they can find work, it is only natural that employers will pass up the inexperienced and unskilled job seekers in favor of those with training and work experience. We need above all to expand job opportunities and help overcome the disadvantages of those who suffer from high rates and long durations of joblessness. When we scan the history of minimum wages in the United States we find that rising minimum wages did not create unemployment when appropriate and constructive fiscal policies were adopted to achieve high levels of employment.

The deficiencies of youthful job-seekers must and can be remedied. This must be done through measures directly oriented toward the problem issue. A Youth Employment and Innovative Demonstration Projects Act, providing such remedies, has recently been adopted. I believe it provides useful approaches to improve the prospects for effective and satisfying lives for our unemployed young people.

The most important step toward solving problems caused by high unemployment and low wages -- for young people and for disadvantaged groups -- is to improve the nationwide job environment. I am convinced we can step up the pace of recovery without facing worse inflation. By now we should have recognized that unemployment and recessions are not the solutions to inflation. We must strive to stimulate competition, to make the marketplace work more effectively, to encourage investment for modernization and expansion, to increase productivity and hold down unit costs, and to adopt other policies and regulations that will help achieve greater price stability.

Along with the policies to accomplish that general improvement, there should be selective and positive training and job-opportunity measures for the most troublesome unemployment conditions. The answer does not lie in wage standards that are more depressed than the relatively low ones provided by S. 1871.

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Table 1. Purchasing Power of the Minimum Wage, Selected Periods, 1961-77

Period	Minimum wage in current dollars	Purchasing power of minimum wage in September 1961 dollars[a]
September 1961[b]	1.15	1.15
August 1963	1.15	1.12
September 1963[b]	1.25	1.22
January 1967	1.25	1.14
February 1967[b]	1.40	1.28
January 1968	1.40	1.23
February 1968[b]	1.60	1.41
April 1974	1.60	1.00
May 1974[b]	2.00	1.24
December 1974	2.00	1.16
January 1975[b]	2.10	1.21
December 1975	2.10	1.14
January 1976[b]	2.30	1.24
June 1977	2.30	1.14
Assuming that the bill is enacted and becomes effective January 1978	2.65	1.27

a. Minimum wage in current dollars, deflated by the consumer price index, September 1961 = 100. An increase of 3 percent in the CPI between June 1977 and January 1978 is assumed.

b. Month in which increased minimum wage became effective.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Table 2. Real Average Straight-Time Hourly Earnings in Manufacturing, Selected Periods, 1961-77

Period	Average straight-time hourly earnings in manufacturing, in current dollars	Real average straight-time hourly earnings in manufacturing, in September 1961 dollars[a]
September 1961[b]	2.25	2.25
August 1963	2.35	2.29
September 1963[b]	2.38	2.32
January 1967	2.67	2.43
February 1967[b]	2.68	2.44
January 1968	2.83	2.49
February 1968[b]	2.83	2.49
April 1974	4.12	2.57
May 1974[b]	4.17	2.58
December 1974	4.50	2.60
January 1975[b]	4.54	2.62
December 1975	4.82	2.61
January 1976[b]	4.85	2.62
June 1977	5.37[p]	2.66

p = Preliminary.

a. Average hourly earnings, excluding overtime of production workers on manufacturing payrolls, in current dollars deflated by the consumer price index, September 1961 = 100.

b. Month in which increased minimum wage became effective.

Table 3. Ratio of Minimum Wage to Average Straight-Time Hourly Earnings in Manufacturing, Selected Periods, 1961-77

Period	Ratio (percent)
September 1961[b]	51.11
August 1963	48.94
September 1963[b]	52.52
January 1967	46.82
February 1967[b]	52.24
January 1968	49.47
February 1968[b]	56.54
April 1974	38,83
May 1974[b]	47.96
December 1974	44.44
January 1975[b]	46.26
December 1975	43.57
January 1976[b]	47.42
June 1977	42.83

a. Ratio of first column in Table 1 to first column in Table 2.

b. Month in which increased minimum wage became effective.

The CHAIRMAN. Thank you very much.

We will continue.

Dr. GALENSON. Thank you, Mr. Chairman.

Next year will be the 40th anniversary of the enactment of the Fair Labor Standards Act, which established the minimum wage of 25 cents an hour. I am old enough to remember many of the arguments that were used against the act at that time and are still in vogue: That the imposition of a minimum wage would reduce employment opportunities, that it would distort the wage structure, that it was an inefficient way to redistribute income, these were among the arguments made way back in the New Deal days.

Economists are prone to make strong policy statements on the minimum wage, and one would have supposed that by this time, they would have had a firm supportive factual foundation. This is unfortunately not the case. In an excellent survey of the recent literature, Prof. Robert S. Goldfarb made the following observations:

1. There is virtually no reliable quantitative work attempting to estimate how wage gains due to minimum wage increases are distributed.

2. The overwhelming preponderance of recent studies on the employment effects of the minimum wage concentrate on teenagers, and evidence on other groups is scarce.

3. The studies of teenage employment effects come to strongly conflicting conclusions.

One of the difficulties with most of the studies is that they are based upon macroeconomic data, and that heroic assumptions are necessary in order to distill out the effects of economic developments that are occurring simultaneously. The problem is compounded at the present time by the volatile state of the economy, and in particular by the continuing high rate of inflation that Mr. Nathan has spoken about.

I think that until research analysts come down to industry and local levels we are not likely to get quantitative results that are useful for policy purposes. In the present state of our knowledge, I firmly believe that it is virtually impossible to predict with any degree of certainty the impact of the changes proposed in S. 1871.

About all we can do is to make some tentative observations based upon a reading of our past experience, and to put in a reminder that for 40 years, the Fair Labor Standards Act has been of considerable benefit to many of the lowest paid in our society without having had any apparently harmful effects on the economy, dire predictions to the contrary.

First. The original minimum wage of 25 cents an hour, set in October 1938 equaled 40 percent of the straight time average hourly wage in manufacturing, the index which is specified in the bill. This ratio persisted until 1950, when it rose to 51 percent. Successive increases in the minimum in 1956, 1961, 1963, 1967, and 1968 restored the ratios to between 48 and 52 percent.

However, the failure of Congress to take any action between 1968 and 1974 resulted in a serious erosion of the effective minimum: In 1973, the minimum wage was only 39 percent of average hourly earnings in manufacturing.

Second. If it were true—and let me repeat, there is no evidence that it is true—that an increase in the minimum wage adversely affects em-

ployment, the opposite should hold. The 6-year decline in the effective minimum from 1968 to 1974 should have contributed to a reduction in unemployment. There is no evidence that it did.

The problem with arguments on both sides of the issue is that the major forces that determine the level of employment swamp any separate and probably minor effects that might be attributed solely to a change in the minimum. Ceteris paribus is not a very useful concept for dealing with real problems.

Third. The increase in the minimum wage to $2 that went into effect on May 1, 1974, raised the minimum/average wage ratio to 48 percent. Despite a subsequent increase to $2.30, inflation has eroded the ratio to about 43 percent at the present time. Raising the minimum to $2.65 would restore the ratio to about 48 percent, still below the average level that prevailed from 1950 to 1968.

The indexing proposed in the draft bill would have the effect of eventually maintaining the minimum/average wage ratio at about the 1950–1968 level, which seems a reasonable goal in view of the fact that there was no demonstrably serious effects on the economy during that period of almost two decades.

Fourth. I must confess that I am not a partisan of the general concept of wage indexing. It has led to many difficulties in countries that have practiced it for long periods. But it is a fact that a great many American workers now enjoy indexing, by collective agreement, and if any group in society needs this kind of protection, it is the low paid. Many, if not most of them are not unionized, and do not have collective bargaining machinery to prevent the erosion of their real incomes.

Fifth. It would be difficult, in my view, to sustain the argument that the minimum wage has constituted a serious inflationary force in the United States in the past. There have been attempts to estimate the impact of minimum wage increases upon the general level of wages, but no satisfactory conclusions have been reached.

We know very little about the repercussions of minimum wages upon the wage structure. The history of minimum wages suggests the strong possibility that the minimum wage tends to follow the general wage level, rather than to act as a propelling force. The proposed changes in the law may well raise earnings in low-wage industries—that is their purpose, after all—but whether they will contribute in any substantial way to the maintenance of our present rate of inflation is doubtful, if the record of the past tells us anything.

Sixth. The most fashionable argument against the minimum wage at the present time has to do with its presumed effects upon employment opportunities for our young people. It has been said that European countries have been successful in avoiding youth unemployment through special exemptions for young workers, either by law or by collective agreement.

Unfortunately, they are now having problems similar to ours. Indeed, Secretary Vance has recently proposed an international conference on youth employment, under OECD auspices, and I believe that it will be held.

There is nothing in our experience to show that we are going to be able to provide decent, permanent jobs for our young people by the expedient of paying them low wages. Moreover, if it were a fact that

wages were a real obstacle to their employment, there are better ways of handling the problem.

I might mention the fact that Belgium, which I think no one would call a nation that is against the free market, has recently obliged private employers to hire specified quotas of unemployed youths, and government subsidies are paid where necessary.

Seventh. I find it unnecessary to spend much time worrying about the income distribution effects of raising the earnings of a full-time minimum-wage employee from the present $4,780 a year to the proposed $5,510. There may well be better ways of improving income distribution. It is quite possible that some of those who receive the increase are members of families with above average incomes.

But it strikes me that a matter of much greater concern is the effect that the increase might have upon the incentive to work, a question that has been completely neglected by most economists. The extra $730 a year may help induce people, and not only young people, to work rather than to live on welfare or to rely on less salutary means of subsistence.

In sum, I have no hesitation in supporting the proposed amendments to the Fair Labor Standards Act. They impress me as among the most desirable of recent social and economic proposals before the Congress.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you very much.

Dr. Levitan.

Dr. LEVITAN. Thank you, Mr. Chairman.

Some of the best arguments have been made already, so rather than prolong the direct testimony if I may, I would like to put my short statement in the record, and just summarize it.

The CHAIRMAN. Fine.

Dr. LEVITAN. To start with the point that Dr. Galenson made. When we talk about minimum wages, we have to recognize that in our society, work and poverty still go together. More than 1 million people who work full-time for 40 weeks or more are still living in poverty.

The minimum wage is the most direct and comprehensive measure designed to increase the earnings of the working poor. The increase of the minimum wage to $2.65 an hour, as already suggested by Mr. Nathan and Dr. Galen, is appropriate.

To be sure, boosting the minimum wage entails some costs, but it also, as was pointed out, produces many benefits. Undoubtedly, some jobs will be lost, yet the aggregate income gain to this segment of society will be much greater.

I would therefore conclude that the benefits of S. 1871 would definitely exceed the cost to society.

Turning to the dual minimum wage, I believe this is not the way to celebrate the 40th anniversary of the minimum wage.

The solution to unemployment is not to hire teenagers, and bump adults into the ranks of the unemployed. The goal should be to create more jobs. There are many causes, as Dr. Galenson has just pointed out, contributing to our high teenage unemployment, and only unreconstructed neoclassical economists can hold the minimum wage as the prime culprit.

Another feature of S. 1871 is the indexing of the minimum wage. I support the concept which will help prevent the erosion of minimum-wage protection in the face of future inflation and other wage increases.

However, I have to depart from my two colleagues. I believe the index should be set at 50 percent of the average manufacturing wage. More than 50 percent should not be attempted until we realize tight labor markets.

S. 1871 is a compromise, it is a workable compromise, and whatever reservations I have about indexing above 50 percent, I support the bill. Considering it in its entirety, the bill is a fair way to improve the minimum wage and the lot of the working poor.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Levitan follows:]

Statement by Sar A. Levitan
before
Senate Labor Subcommittee
Human Resources Committee
August 3, 1977
S1871 A BILL TO AMEND THE FLSA

A job -- even full time employment -- is no sure escape from poverty. The image of the destitute, idling through life on welfare or eking out a living from old-age receipts, is far from a total picture of real conditions in our society. There were 25.9 million people below the poverty level in 1975, comprising 12 percent of all persons. As a result of the worst economic slump since the Great Depression the number of low-income persons increased by 2.5 million during the 1974-75 period. This was the largest single increase observed since 1959, the first year for which poverty data were available.

About 6.7 million people with income below the poverty level worked during the year ending March 1976. Among the working poor over 4.1 million people worked full time and about 2.6 million had part time employment. For many heads of families working is no solution for pulling a family out of poverty. Nearly 5.5 million working heads of families still remained below the poverty level. This figure represents 9.7 percent of all working family heads. Included among the working poor were 866,000 heads of families who worked full time, full year.

The minimum wage is the most direct and comprehensive measure designed to increase the earnings of the working poor. Since the 1974 amendments of the Fair Labor Standards Act, inflation has steadily eroded the real protection of the minimum wage. As of May 1977 the current minimum wage represented only about 43 percent of straight-time earnings in manufacturing.

The harsh impact of inflation is not distributed equally within our society, and the working poor are hurt much more by inflation than the middle and upper classes. The working poor spend a far higher percentage of their income on necessities of life such as food, housing, and clothing than those in the higher income brackets. Some critics of S. 1871 have warned that increasing the minimum wage to $2.65 an hour would fuel inflation. While increasing the minimum wage by 35 cents an hour will have a minor inflationary impact, it is wrong to expect, or insist, that those on the bottom rung of our economic ladder should shoulder the brunt of our inflationary problems. The increase of the minimum wage to $2.65 an hour at the start of next year is proper and will have only a minor impact on inflation. An affluent and compassionate society could do no less.

While the FLSA is reaching its 40th birthday, it still remains controversial. Many critics argue that by boosting the minimum wage we will create more unemployment and, they further argue, it is better to have a job paying below the minimum wage than no job at all. There are few problems that have been subjected to more statistical testing, econometrics, simulation analysis, and regression estimates than the employment impact of minimum wages. All boosts in wage costs have some impact on decisions by employers to hire workers. However, the cost of capital, energy, and other factors of production also enter into hiring decisions. It is wrong to single out the working poor who are generally not represented by a union and who tend to be in the weakest position to promote their interests. While boosting the minimum wage entails some costs, it will also produce real benefits. Undoubtedly, some jobs will be lost, yet the aggregate income gain to this segment of society will be much greater. The benefits of this move will greatly exceed the costs.

There have been some suggestions of creating a dual minimum wage specifically for teen age workers. Several years ago I favored a youth differential, but under present conditions such a youth differential would be the wrong policy at the wrong time. A major cause of youth unemployment has been due to demographic conditions. When the children of the post-war baby boom reached working age in the tight labor markets of the 1960s, it may have made sense to institute a differential. But now this population bulge has passed through the teen age years and a differential makes less sense. Also, under tight labor markets the possibility of substituting relatively cheaper teenage labor for adult labor was reduced. However, with current unemployment rates well above healthy levels, the prospects of substituting a teenager for an adult worker are much larger. The solution to unemployment is not to hire teenagers and bump adults into the ranks of the unemployed. The goal should be to create more jobs. Vigorous monetary and fiscal efforts combined with the Youth Employment and Demonstration and Projects Act of 1977 are correct ways to fight unemployment -- not a youth differential in the minimum wage. There are many causes of high teenage unemployment, and only unreconstructed neoclassical economists can hold the minimum wage as the prime culprit.

Minimum wage policy should be viewed in concert with welfare reform. There should be a strong incentive to work, and a realization that for millions in our society work and some sort of public assistance will have to be applied together. To hold the minimum wage at unrealistically low levels dampens the incentive to work. The poor -- just as much as the middle class and the wealthy -- act out of self-interest and respond to the economic incentives structured in our system.

A major reform contained in S. 1871 is indexing the minimum wage. I support the concept which will help prevent the erosion of minimum wage protection in the face of future inflation and other wage increases. Many income transfer programs of the government and private sector labor agreements contain automatic indexing provisions. It makes sense to do the same for the minimum wage. However, I would suggest a more gradual phasing in of the indexing system. The current compromise calls for an index of 52 percent of straight-time hourly wages in the manufacturing sector at the start of 1979; and 53 percent at the start of 1980. It would remain at 53 percent thereafter. These increases would be on top of the initial increase of 15 percent in the minimum wage to $2.65. It is estimated that this indexing formula would represent a 9 percent increase at the start of 1979, and a 9 percent increase as of January 1, 1980. According to these projections the entire impact of the initial increase plus the index would be to increase the minimum wage by about 37 percent over this short period.

It is unrealistic to expect that past wrongs can be corrected over night. I believe we should proceed more cautiously, and hence I would suggest an initial index of 50 percent of manufacturing wages. The increasing of the index beyond 50 percent should not be attempted until we again achieve tight labor markets.

S. 1871 is a compromise, and despite my reservations concerning the timing and formula used for indexing, I support it. Considered in its entirety the bill is a fair way to improve the minimum wage and the lot of the working poor.

The CHAIRMAN. Thank you very much.

Now, on that very last point, because of the 6-month lag that we are at 50 percent or a little below, I believe——

Mr. NATHAN. It is really a year's lag, because, do not forget in January 1980, you are applying that 53 percent to the average for the year ending June 1979. The midpoint of which is—at the end of 1978.

So that in a sense, the 53 percent will apply to an average wage that prevailed 12 months before the application date.

The CHAIRMAN.. Not precisely, but at a rate, it will apply to wage that included a year, but is not that the average wage of that prior year?

Mr. NATHAN. That fiscal year, yes, that is right.

The CHAIRMAN. It would include 6 months?

Mr. NATHAN. The average for any year will tend to be around the midpoint during that year and the average at midpoint of the year ending June 1979 will be the very beginning of 1979.

The CHAIRMAN. I think we are arriving right where you want us to be.

Dr. LEVITAN. Well, yes and no, Senator.

I am concerned that we may go a little too fast. The index would come on top of the 35-cent increase. Again, minimum wages do entail some job losses. The costs do increase when we move above 50 percent with high unemployment. It may be a case of killing the goose that laid the golden egg.

But at the same time, I sympathize with my two colleagues, who would want to go a little further, and that may be a necessary compromise.

The CHAIRMAN. On the assumption of a 7-percent increase for the year, the Labor Department has projected, and come off with the percentage that in fact would not be the number in law, but the number in fact.

The CHAIRMAN. Dr. Levitan, in your—I have not read your statement, but fortunately, the staff has, and they point to a phrase that you used to describe those who hold the minimum wage as the prime culprit in youth unemployment. You use the phrase, "unreconstructed neoclassical economists."

Now, if you would give me a better picture of the neoclassical theory, I would like to be able to spot these neoclassics when they come here or on the street.

Dr. LEVITAN. I think you will see them in triplicate in a few minutes, Senator. They are very fine gentlemen, except somewhat misguided on this point, and somewhat rather innocent about the operations of our economy. That is the best way I can describe it.

The CHAIRMAN. OK, good.

It hits with dramatic impact.

In your statement, Dr. Galenson, you indicate that the period of 1968–1974 was dormant in terms of the minimum wage. If you will recall—1 year we were well into the area but midway in that period, we were filibustered with a twist.

It was a year that, from our point of view, we were headed in the right direction, and were stalled because we could not get to conference.

At any rate, because of that, the minimum wage dipped to 38 percent,

as I recall. I am just using that as evidence to support something that impresses me, that the people that we are talking about are most generally unrepresented in any bargaining situation. So they really have to bargain for themselves, which is not a powerful position to be in. That permitted this slide, because we did not keep up.

I just keep coming back to it. If we do not act for those lowest paid wage earners, who will? It seems to me that it is cruel, indeed, to suggest that skills and entry into the job market at the minimum, and hard work and application will be the answer.

A lot of these jobs are revolving doors, and a lot of other factors. I am struck with the fact that if there is going to be any improvement for the lowest wage earner, they are going to need laws and protection.

Now, perhaps an economist would not ask this question, Mr. Nathan, but column 3, table 1, column 3, table 2, of your tables are basically the same although described differently are they not? Are there different elements?

Mr. NATHAN. No; there is no different element at all.

What in essence we have done, Senator, is take the minimum wage as of the dates introduced in these tables, and then up to the next introduction of a new minimum, so you see the attrition in buying power occurs between those dates. As you already noted, that is fascinating to see. When introduced in February 1968, the minimum wage was $1.60, it had a buying power of $1.41 in 1968, but by the time came around 6 years later to introduce a new minimum in May 1974, it had shrunk from $1.41 in buying power to $1. This is quite startling. That is why I say that you just said, namely who is going to protect these at the lowest level, largely unorganized, pretty much like child labor, is important.

If we did not eliminate child labor, there would be unscrupulous employers using them.

What you have here is more than that minimum wage, and what you have in table 2 is the new base for the relationship of minimum wage, also noting adjustments through the consumer price index, we see how, through the strength of trade unions, and I think properly so, we improve the real status of buying power of the average worker.

That did not happen with the minimum wages, and I think it is terribly important to note those two relationships.

Dr. LEVITAN. Mr. Chairman, if I may.

I agree with everything Mr. Nathan just said, except for one point. We have to realize that if Congress had acted to protect those who have little strength in the marketplace, let me say, 7 or 8 years ago, as you suggested, Mr. Chairman, then I would have no problem with Mr. Nathan's suggestion. But, the fact is that Congress has not acted, and is about to boost the minimum wage by 15 percent. I think there is enough evidence to show that low wages tend to cluster near the minimum wage.

A lot of workers are going to get 15 percent—which is long overdue. But we cannot expect to suddenly correct all past wrongs. I am suggesting therefore that it might be desirable to delay the indexing to reach 53 percent. It is hard to argue against the minimum wage, but at the same time, it may also do more harm than we anticipate. Caution may be in order.

Unfortunately, Congress did not act years ago, but it is well that it is about to act now in indexing the minimum wage. But we cannot expect

to correct for past delays too rapidly, including the delay of Congress not acting sooner.

The CHAIRMAN. Both of the gentlemen, please.

Dr. GALENSON. Well, we have had substantial increases in the past; 1950 was one, when we greatly increased the ratio of the minimum wage to the average wage. These have been studied, and really—Senator, there is no obvious impact of these increases on employment.

Economists have been trying to make models, doing all kinds of statistical exercises, but they cannot distill out any impact.

Dr. Levitan says that there are costs and benefits. Well, you can do a cost-benefit analysis, if you know what your costs are, and we just do not know what the costs are. There may be some impact, and there may not be.

You see, these unreconstructed neoclassical economists that Dr. Levitan is talking about envision an entrepreneur sitting in his factory making very big decisions at the margin.

If the minimum wage goes up by 10 cents, or 15 cents, then immediately he puts new machinery in, making instant decisions.

Now, I think that realistically you do not get this kind of reaction, and that is why it is so difficult to measure the impact.

For example, my wife is an economist. I was trying this out on her. She said, of course, there is going to be an employment effect. Every economist knows that. We teach it in elementary economics.

I said, you are paying a cleaning woman the minimum wage. She gets $2.30; you are going to fire her if it goes up to $2.65? She said, oh, no! That is the real answer. People make compensating adjustments.

You say, how can we have workers competing with people in the Far East, if we raise the minimum? That is not a germane observation, because I have been in Singapore, Hong Kong, South Korea, and I have seen people working there, doing hard work, very high productivity work, for $1 a day—not for $2.30 an hour. And those are good jobs over there.

So you cannot even begin to compete for those low wage jobs. It is not realistic to think you are going to lose jobs unless you match Hong Kong and Singapore. I think that the people in the United States who are now paying $2.30 will pay $2.65, and make the necessary adjustments.

Mr. NATHAN. Let me turn first to Dr. Levitan's observation on, say, gradual adjustments. In essence, the $2.65 will apply 2 years after the last increase took place, January 1976, when it went to $2.30.

The $2.65 will be effective January 1978. In those 2 years, the Consumer Price Index, assuming it rises the 3 percent the next 6 months—which I think is a conservative projection; I am afraid it might be more—if it rises only three, that means that from January 1976 to January 1978, the Consumer Price Index will have risen 13 percent.

Now, to receive a minimum wage increase from $2.30 to $2.65 is not, in a real sense, much more than the Consumer Price Index rose. I think it is a conservative increase, and I would share with you that when one is trying to make an adjustment in a catch-up sense, one does it rather gingerly. In an inflationary situation, I see this $2.65 as relatively modest with respect to price changes in the last few years.

My second point has to do with the 50-percent ratio. I would recommend that if one could work out a formula that would be simultaneous, namely, that you could in January 1979 or January 1980, apply a ratio of the minimum wage to the average straight time hourly earnings and manufacturing of 50 percent, I would accept the 50 percent as applied to the current hourly earnings and manufacturing. I would say it would be perfectly acceptable, because for all intents and purposes, the results would be the same.

So I would buy the 50 percent on the current basis. The trouble is, how do you introduce, in January 1980, a 50-percent rate, when you do not have the base because of a couple of months' lag in data? You cannot do it.

But it would be different with only a 2-month lag. Say, the results of a 50-percent ratio would not be much different from the 53 percent applied to the actual average 1 full year earlier. I think it is a modest set of proposals.

The CHAIRMAN. Surrebuttal?

Dr. LEVITAN. No, just continuing the conversation.

We should index the minimum wage, but it is a question of timing and the amount of increase. Because Congress has not acted to index wages earlier, there are millions whose wages are concentrated between $2.30 and $2.65 an hour, clustering at $2.30. I am suggesting that there are dangers involved if we move beyond the 50-percent range. These problem areas mostly involve small employers. It is not United States Steel, or General Motors who will reduce labor requirements. Small employers, with very little market power, might face real difficulties.

The CHAIRMAN. I think, in the legislative world, our adjustment cannot be done in a fine economic sense. We can lose—we can see the cost of living go up a point while we are trying to get a bill out of the committee, you know.

So we have to factor in our delays, you see, and I think that is, in a sense, what you are talking about.

Mr. NATHAN. Well, it is not a big adjustment. I think if we go back to what Dr. Galenson said about 1968–74, and there you have a big lag, and there you have a large drop in purchasing power, as I pointed out, from $1.41 to $1 in 1961 prices and you brought it back to $1.24. For this period we are talking about, a 2-year adjustment—not 6 years—is manageable and reasonable.

The added buying power to those people at not just the minimum, but also to others around that level, I think will have a job-creating effect that will pretty much curtail the job-reducing effect.

The CHAIRMAN. Let me back up there a moment.

We have heard from representatives, business, and in one or two instances, from business managers and owners themselves, that this will cause substantial unemployment.

As a matter of fact, both representatives, and I believe one businessman, had this projected into the numbers of unemployed and unemployment that would follow. I think it was about 892,000, for one projection, and—893,000, it was down to the last person, by the way, that would be unemployed.

Now, I just wonder, you are eminent economists in your profession of work.

Do you get close to consultation and working with business people? Do you feel detached from the business world, or do you feel that you are close to it in your professional work?

Mr. NATHAN. I do not know about Galenson and Levitan, in academic research, but my firm works in the business world. I do not want to imply that I am speaking here—that I am speaking for business, but I happen to be a trustee of the Committee for Economic Development, am on many CED policy committees, and am dealing with issues on many of these policy matters all year round.

Many of our clients are corporations and many of our clients are in the utility area. Many of our clients are in the business area, and I think that the allusion that somebody can come up with an estimate of just under 930,000, or whatever it might be, is I think guessing. Often simulations and the like are unrelated to the real world. I would take the Department of Labor estimates though I have not tested it or checked it. They say the revision might have a negative impact of under 90,000 jobs.

What they have done, as I read their analysis, is to judge how many people might be left out of jobs if you go from $2.30 to $2.65. On the other hand, what is the increase in terms of buying power, and increase created in the demand, by the $2.65 minimum?

I have no idea where this comes from. I would like to subject it to some analytical computations. But I find that business people in their own sphere are most unwilling to be dogmatic——

The CHAIRMAN. Dr. Galenson?

Dr. GALENSON. Mr. Chairman, I have some contact with business people. I do a fair amount of labor arbitration.

With respect to the numbers, in preparation for coming down here, I did take a look at past studies that have been made. The Bureau of Labor Statistics, over the years, have been trying to estimate some of these effects, and some years ago, they did some detailed fieldwork. They went around, after a new minimum wage had come into effect, and asked employers, "Did you lay anybody off?"

There is a footnote in my statement referring to an article written by an Australian economist. He studied the low-wage industries in the United States, and he found modest employment effect in footwear and none at all in apparel.

In you really want to find the answers, to determine what the employment impact is, you have to go in right after the imposition of a higher minimum and interview low-wage employers, try to find out whether people have gone out of business, and whether the minimum was responsible.

But the fact is that we just do not have that information now. There was some work done by the chamber of commerce, I understand, but its scientific validity is open to question. It is awfully hard to get any numbers in this game.

The CHAIRMAN. I am going to turn to my colleagues, but I also would like to include in the record at this point from the Department of Labor an application of that statement that there might be possibility of 90,000 negative impact. And I think this will go in the record at the appropriate time.

[The following was received for the record:]

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EMPLOYMENT EFFECTS

Considerable controversy surrounds the question of employment effects of minimum wage legislation. Today, there is no consensus regarding the size of any disemployment impact related to minimum wage increases. In an expanding economy, moreover, job creation will outpace job losses. In fact, aggregate data indicate that employment has generally increased over periods during which the minimum wage has increased:

Year	Basic minimum wage	Total nonagricultural employment (thousands)
1949	$0.40	43,778
1950	.75	45,222
1956	.75	52,408
1957	1.00	52,894
1960	1.00	52,234
1961	1.15	54,042
1962	1.15	55,596
1963	1.25	56,702
1964	1.25	58,331
1966	1.25	63,955
1967	1.40	65,857
1968	1.60	67,951
1969	1.60	70,442

Econometric studies have shown mixed results. Recently, attention has focused on a 1976 study by Edward Gramlich, University of Michigan. Gramlich's study relates changes in the minimum wage to changes in employment for youth and adults. He finds no disemployment among adults but a slight disemployment effect among youth.

Utilizing Gramlich's data, the Council of Economic Advisors estimated the potential disemployment effect of a $2.65 an hour minimum wage to be 90,000 jobs. This "disemployment effect" does not relate to jobs which will be lost as result of a higher minimum wage. Rather, the effect relates to jobs which may not come into existence in the private economy with a higher minimum wage standard.

It is recognized that low-wage firms are faced with an increase in labor costs when the minimum is increased. The necessary reappraisal of business practices often results in management improvement and efficiency gains which compensate for the legislated wage increases.

Finally, since minimum wage increases benefit low-wage workers with a high propensity to consume, there is a stimulus to the economy. Product demand increases and this in turn may lead to some increased employment.

The CHAIRMAN. The conclusion in effect is the jobs which may not come into existence in the private economy with a higher minimum wage. This is not an absolute loss but a second degree loss.

Senator Javits.

Senator JAVITS. Gentlemen, a question of fact of do we know how many numbers of people will be affected directly by an increase in the minimum wage to the first figure, which is stipulated by the bill before us?

Dr. LEVITAN. Yes; I believe the Department of Labor has submitted those numbers and they range from about 4.6 million in 1978, 5.1 million in 1979, and 5.8 million in 1980.

Senator JAVITS. So, in round figures, we are dealing with 6 to 7 percent of the work force?

Dr. LEVITAN. A little less. Ninety million working, so we are talking about 4½ percent.

Senator JAVITS. It would not be 4½ percent if you are talking over 5 million.

Dr. LEVITAN. By 1980.

Senator JAVITS. So it is around 5 percent as a mean figure.

Now, there is a lot of talk about a ripple effect that this will have on the total wage scale, and the people who testified here testified really to three problems.

One, the ripple effect, that is how it ripples up through the wage scale, and I have little doubt that the strong position taken by the Trade Union Federation has something to do with this ripple effect.

And, second, the youth differential and, third, the indexing.

These are the three problems. Frankly, I do not think there is any great opposition to increasing the minimum wage in absolute terms to $2.65, and then, you know, to step it up to $2.90. I do not think there is any real opposition to that, but I think these other three points are critical.

Now, on the ripple effect, I asked you, because it is not covered in the testimony of any of you, would you give us your comments as to what you consider to be the effects on the aggregate wage bill of the increase in the minimum wage?

Dr. GALENSON. Senator, I did have a brief reference to it in my statement.

Again the problem is that we know almost nothing about the impact of the minimum on the total wage structure, to what extent you get compression, to what extent you keep the spread.

The estimates are terribly hard to make.

Now, in general, if you take the last 30 or 40 years, the wage structure has become compressed but at different trend rates. This cannot be attributed in any way to the minimum wage. But the compression means that you are not getting very much ripple effect. Which is the pull and which is the push?

Are you pushing the entire wage structure up when you raise the minimum?

I do not think that the unions really need any help in getting higher wages for autoworkers, steelworkers, or teamsters through the minimum wage. Most of the union wage levels are so far above the minimum that I do not believe there is too much effect. There is some dispute about industries like footwear or apparel where there may be an effect. How much, it is just impossible to say.

Senator JAVITS. Do you all agree on that hypothesis?

Mr. NATHAN. I certainly agree, Senator Javits.

If the average wage were fairly close to the minimum, as has been true in some places, then an increase in the minimum would certainly have a substantial rippling effect.

But when you look at what the average wage of production workers, is now in manufacturing, $5.37, you might try to envisage what is the distribution of that $5.37. How many of those are $2.35, $2.50, and how many are earning $8 an hour?

Now, I have not checked this distribution myself, but it is impossible for me to envisage in manufacturing a very substantial portion being just near or around the new minimum wage level. Some will be there in certain industries, I agree with Dr. Galenson, but the aggregate magnitude has to be very small because for that distribution to average $5.37 a great many have to be well above the average. That medium may not be too far from the average, but certainly the percentage that would be down at or near the minimum level would have to be small.

I would agree with Mr. Galenson, unless you go out and do a real down-to-earth survey a month or 2 months or 6 months after the new minimum to get some measures, it is almost impossible to draw a conclusion.

Senator JAVITS. The next question is the youth differential.

There is great pressure for youth differential which has added emphasis from the appalling figures on youth unemployment, and I realize the objections.

Could I have your comments on the following question?

In view of the discussions about the employment—about the employer's last results, and Arthur Burns views, for example, that that has to be a very low compensation, even below the poverty level, would there be anything to the idea of admitting new entrants into the labor force who never had a regular job before at an apprentice status, just ipso facto, if they never had a regular job before, they are apprentices at, say, 75 percent of the minimum wage for, say 6 months, with a penalty if bad faith is proven?

In other words, if an employer tries to turn them over every 6 months. It is a hypothetical question, but the pressure for a differential is so great and the stress of youth unemployment is so great that I think that we in this committee simply have to kind of inquire about any possible alternative, and that is one that I just construct arbitrarily to try you out, whether we simply have to hold the line flatly, no exceptions, et cetera?

Dr. LEVITAN. Senator, again, we do not have exact information. I testified before this subcommittee 6 years ago in favor of a dual minimum wage based on the then-high youth unemployment and the projections that promised no relief in the 1970's. Under the circumstances a dual wage made sense at that time.

Well, Congress did not take my advice 6 years ago. We are facing already a decline in the teenage labor force. This decline in 16-year-olds has already started while the number of young adults in the low 20's is going to continue to increase for a number of years.

A dual minimum wage at this time would involve trading off more adult unemployment to help teenagers. I do not think that, in light of the loose labor markets we are going to face in the next few years that a dual minimum wage makes much economic sense today.

Mr. NATHAN. Let me add to that.

Our younger people are better educated all the time. More of them are going to school for longer periods of time, and I think that any kind of objective test of capability, in terms of exposure of education and the like, would show an improvement. I feel myself that unemployment among the younger people is always going to be above the average for all workers.

Any employer who will not hire those with experience and prefer to hire those without experience instead, is not likely to be the economic man, so to speak.

This then raises the real question as to where the solution lies. I have heard the argument many, many times in the past, but this argument about youth unemployment is especially strong now, Senator, especially strong with unemployment so high. And when we now have 7.1 percent of our labor force idle which, by the way, is as high as all but 5 months between the end of 1948 and 1974. In other words, this is as

high as the peak unemployment of all but one postwar recession before 1974.

Now, given this level of unemployment, I think the bias against the young, bias against minorities—I do not mean bias in a social sense, but in an economic sense—is bound to prevail. And I am inclined to agree with Dr. Levitan on what you will have if you set a lower wage for the young people unless your aggregate policy continues to pursue higher levels of overall economic activity.

Even if we get back to 5-percent total unemployment, we will have to try to overcome youth unemployment by selective measures in the education area and in jobs of last resort—a variety of measures that seek to help those who are unemployed to get into the working labor force.

Dr. GALENSON. I would like to say a word.

Senator, I think that putting young people to work is the single most pressing problem that we have in the United States. If I thought that a reduction in the minimum wage for young people would help solve that problem, I would be all in favor of it. I do not believe it will.

The Europeans have such lower youth minimums, and they are having a very tough youth unemployment problem right now despite that fact. They are not trying to lower the minimum further. They are attempting to use direct methods of getting young people into decent jobs, and I do think you must also keep in mind that to get a young person into the frame of mind where he is willing to accept a job with a future, you have to offer him something, and I do not think that $5,000 a year is too much.

You have got to give him incentives so that he comes to work every day, and is willing learn. Otherwise, and I see what happens to a lot of students, he just drops out. Many students now go to live in communes, get food stamps, live on welfare.

I do not think you are going to solve the youth problem by reducing the minimum wage for young people. And there is no evidence that econometricians can offer to the contrary; I have looked through the literature.

Senator JAVITS. The last question on indexing—my time is up, my colleagues are waiting, which I hope you will make a brief answer to, is this.

Would we not be better off—I am asking challenging questions because we like to provoke you into meeting the questions we will have to meet—would we not be better off raising the minimum wage to a flat sum as of January 1, 1979, or even January 1, 1980, and putting the cap on it at a percentage of the average hourly wage?

I would hope perhaps in total nonfarm employment, it seems very loaded in manufacturing, although I do not think the figures will make much difference, say, 50 percent. So that we would say $2.65, January 1, 1978; two blank, January 1, 1979; two blank, January 1, 1980, but not in excess of 50 percent of the average nonfarm hourly wage.

What would you think of that?

Mr. NATHAN. I would just say, Senator Javits, that what, in essence, you are doing is combining the past practice with one new one; namely, setting a ceiling. But Congress will be pushed to act because there is going to be pressure against reduction in buying power.

So you are back again where every 2 years, or every 1½ year, or every 3 years congressional action is needed.

I just think that the concept of attaching that ratio or that minimum wage level proportionately to some prevailing wage that arises out of free bargaining and free negotiation is a much more logical approach. It takes you off the hook every 2 or so years to sit down and go back through every process of deciding whether the consumer price index is right or wrong, every process having to do with impacts on jobs and the like, and I just think it is an expediting approach that makes good sense.

Senator JAVITS. Any other views, or is that the general view of all of you?

[No response.]

Senator JAVITS. Thank you very much.

The CHAIRMAN. We are very pleased that our colleagues, Senator Hatch, Senator Hayakawa, from the full committee are here. Although they are not members of this subcommittee, I am pleased that they are auditing this panel, and feel they should have the opportunity to make questions.

Senator Hatch.

Senator HATCH. I appreciate that. We are happy to welcome you to this panel.

Yesterday, we had some testimony that there were 1,765,000 youngsters out of work; that the chamber of commerce stated that there will be 391,000 fewer jobs for teenagers between the ages of 16 and 19; overall teenage unemployment would go to 24 percent.

Among black youth, where current unemployment is a devastating 39.4 percent, it would approach 45 percent if the minimum wage rate were increased from $2.30 to $2.65.

In addition, Dr. Carlson, who is the vice president and head economist of the chamber of commerce, concluded that increasing wage rates to $2.65 could result in a loss of 391,000 jobs to teenagers. He said that the States that would be hardest hit would be Pennsylvania and Chicago.

The increase, as proposed on January 1, 1978, would increase labor costs 2.2 percent, and the consumer price index, because of that, will increase 1.5 percent. That if you add the 391,000 teenage jobs to the present 1¾ million out of work among teenagers, the minority teenagers would jump from 39.4 percent to 45 percent. He is talking about nonwhite and not necessarily black. They admitted that black unemployment would be more than 45 percent.

And you gentlemen have indicated that you do not think anything really can be done about it. And having set minimum wage or youth differential would solve the problem.

I would like to know what solutions you have to solve the problem, and I agree that we are always going to have a higher percentage of youth unemployment than we do adult unemployment, but still 45 percent I find to be irreprehensible.

And let me add one other comment so that you have the background of yesterday.

We had people from industry yesterday testify that there will be definitely a loss of a lot of jobs that the teenagers would hold because they are going to reduce the need for employees, they are going to cut

employment across the board, fast food industries and other type industries of a similar nature, to hire people at minimum wages.

Then we went into the testimony of—or should I say the report of Dr. Walter Williams where he talked about all the social economic impacts, in not putting these young people to work even albeit at a subminimum wage or at a—on a youth differential basis.

What solutions do you gentlemen have to offer that we are going to be able to solve the youth problems and give them the work even though they may not be working at the—at least at the minimum wage?

Now, your arguments are good except there are no answers.

Dr. LEVITAN. I do believe there are some answers.

As far as Dr. Carlson's testimony is concerned, and I have the highest regard for him, but I would like to know from what magic box he pulls out those exact numbers. I will try to find out——

Senator HATCH. I would ask the committee to have Dr. Carlson tell us how he arrived at those figures.

Could we send him a letter and ask him that the information be provided inasmuch as it seems to be focalized right on the crucial point?

If he is right, let me add one other factor.

Secretary Marshall who, I believe, has been 100 percent pro big labor positions, and who I have a lot of regard for, but nevertheless I do not think anybody should be 100 percent pro big labor or pro big corporations. And if there are some middle grounds here, he admitted that the minimum loss—you fellows have not admitted that—that the minimum loss is 90,000 jobs, indicating that it is——

The CHAIRMAN. No. Wait.

We corrected that yesterday.

Senator HATCH. Well, correct me again.

The CHAIRMAN. The exact words, the possible maximum.

It was not loss of jobs but a failure of new jobs in the order.

Senator HATCH. I thought it was minimum, but I will stand corrected if that is so.

The way he explained it was that we could probably offset that with public sector jobs that that advocates. I think that would be a correct statement.

Dr. LEVITAN. But to turn to your initial question, I think the solution to this problem is a very old-fashioned one, and that is tight labor market.

If you look at what happened in the late 1960's during the Vietnam war, we had a very rapid decline in teenage unemployment. And by that time the labor market was already confronted with the population explosion of the postwar period. The post-World War II babies had reached labor market age. But tight labor markets reduced unemployment for youths as well as for others.

Now, if you think it was just because they were drafted—that is unemployed male youth—that is not the case. There were a lot more jobs for young men in the civilian sector, not only in the military, and also female youth unemployment was reduced to acceptable levels, to about 12 percent and females were not subject to the draft.

The high black youth unemployment was not mostly caused by any minimum wage.

The rejection of blacks to do some type of work that youth usually accept was one factor. It seems to me that the answer is quite clear. If we have the proper fiscal and monetary policies, accompanied by appropriate manpower programs, overall unemployment will be reduced to acceptable proportions, including youth unemployment.

Dr. GALENSON. Senator, last year I testified before the Joint Economic Committee, about the question you asked, what can we do about it—there are a lot of things that we can do about it.

I mentioned this Belgium plan as an example. Belgium is not a Socialist country, to put it mildly. The Belgian Government required every private employer to hire a quota of unemployed young people, and what is more, the young people have a choice, they simply go to the employment office, and pick the first company on the list which has not fulfilled its quota. The company was then required to hire them. It has worked pretty well.

That is one way. There are a lot of other ways you can do it.

Senator HATCH. The Government made up the difference?

Dr. GALENSON. For the first 6 months the company paid the entire amount. After that there was some subsidy, if they wanted to keep them.

Senator HATCH. You see, rather than have this cancer in our society, they may be willing to have the Government pay a difference, but do it for the first 6 months, while these young people get training. I am not against that.

Dr. GALENSON. I would much rather see subsidized private employment, than government employment. It leads to a more permanent job, and better training.

I am not a partisan of expanding the employer of last resort concept. But I think you have got to give these kids some incentive to work. You have got to pay them enough so that they see some money coming in.

If you offer people $1 an hour in the New York area, I do not think that there would be many takers.

Senator HATCH. I really believe that it is a matter of indication. Maybe you are working for $1 an hour, but you are learning something in the process. But if we take the attitude that you are working at a subwage, and you are a lower class citizen, then I think we would be doing a favor for society, rather than a disfavor. Rather than just ignoring the problem and saying hey, they are not going to work for $1.50 an hour, because that is less than $2.65.

I see the argument, but I think it is a matter of teaching, a matter of a future for those young people, where if we put them to work in the college sector jobs, and take them off the unemployment rolls in a year, then they are back on the unemployment rolls.

I agree that the private sector should be emphasized here.

Dr. GALENSON. My own perception is that if you were to offer a lot of these jobs to kids at $1.50 an hour, they would say it was not worth it to them. You have to have a more positive program.

So I do not think that to accommodate this possibility you should penalize all the rest of the young people who can get work.

You see, it is simply a perception of what would happen if. And my view, based upon what I have read, is that you are not going to have much of an effect on increasing employment of young people just by reducing their minimum wage.

Mr. NATHAN. Senator, I have a great respect for the entrepreneurs and the business managers in this society. I think they have done wonders——

Senator HATCH. Some of the testimony is that a lot of small businessmen are——

Mr. NATHAN. I would like to get, from Jack Carlson, the methods that he used to get these numbers, and I hope it will be requested, because there is such a difference in the numbers.

Senator HATCH. I personally will request it, and I think our chairman—Mr. Chairman, I would ask unanimous consent that we get that backup data from Mr. Carlson, because I think it is crucial, that all three of these gentlemen have requested it.

The CHAIRMAN. You are going to write?

Senator HATCH. I think the committee ought to write.

The CHAIRMAN. That seems to be a fair request.

Senator HATCH. I just want to get it on the record.

Mr. NATHAN. I think these worksheets——

Senator HATCH. I would request that copies be given to these three distinguished gentlemen, and that you be accorded the privilege of responding to whatever Dr. Carlson responds.

Mr. NATHAN. You asked about solutions, and I certainly agree with both my colleagues here, that until and unless we try to get this aggregate unemployment down, it is going to be an almost impossible job, because any employer who is going to be able to fill a job at a lower range, and you cannot fill it with a younger person, or black person, or anybody who is out of a job area today, is going to do so, and I think it is just logical, if I can hire somebody for $1.50.

Senator HATCH. That is not true, because there is going to be—I agree with Dr. Galenson, that there is going to be some incentives, because there are a lot of problems in hiring the young, untrained, unskilled people, and maybe—I do not see forcing every private employer to take on unskilled, uneducated youth. But I think there may come a time when we will have to come up with a system that will work in this area.

Mr. NATHAN. You know, for 40 years we have had minimum wages, and we have always had the problem of an exemption for the unskilled, and the young, at a time when there is sizable unemployment.

I do think what we need to do is to step up the recovery of this economy.

I mentioned before we never had, in nearly 30 years after 1948 in all recessions, except one—the level of unemployment at what it is today. After a long, long period of slow recovery, we still have serious unemployment. I think our first measure should be to push for recovery. Then there are things that we ought to do for youth, and the recent new legislation will help in that direction, in terms of training, in terms of tying training with job opportunities, with the employer reaching in back to the educational system, and then have the educational system reach forward.

I think a lot can be done, but I just feel the——

Senator HATCH. I would like to have you gentlemen—I am not going to ask any more questions, I want to provide Senator Hayakawa some time, but I would like you gentlemen to consider what your background, since I am on the Employment and Migratory Subcommittee,

I would like you to consider means where we might be able to stimulate employment among the youth of our society.

But I would like to make one other observation. There are a number of us that are advocating, in our economy, that we get the incentives to go out and expand, and to create more jobs.

You might give some thought to that, because I think people are starting to come around to that viewpoint, and I do not mean to approach it in that simplistic statement.

The CHAIRMAN. I voted for the tax investment credit, I voted for every opportunity.

Senator HATCH. See what is wrong with our society?

But Senator Williams votes his conscience in these matters, and I vote mine.

We can all tell you that we have big problems. We can always cite the statistics.

The question is how to solve these problems, and there are some very persuasive arguments made, that may very well be one aspect of a solution to some of these problems.

Senator Hayakawa?

The CHAIRMAN. Dr. Hayakawa, talk to your peers.

Senator HAYAKAWA. Thank you very much for this opportunity.

I am puzzled by statements made by Dr. Galenson, that it is hard to tell much about the "impact of wage structure."

I want to talk, on behalf of, say, agricultural interests, and agricultural labor, and also on behalf of teenage rural kids.

Part of going to school, part of the growing up experience in all rural communities of California, no doubt the rest of the country, is working on various agricultural departments, gathering raspberries, working on the asparagus problems, splitting apricots that dry in the sun, and so on, and so forth.

Any way, there are some jobs that one does, both in junior high school, high school, part-time, or full-time, during the summer.

Now, they are jobs that are not well paid, but the important fact is that for junior college kids, and high school kids, they simply no longer exist, because of the minimum wage. You can put your own kids to work on it, but that is not enough, then you are out of business.

Therefore, we no longer grow, like asparagus, in this country. We import it from Taiwan.

In one area after another, especially those agricultural products, where labor is intensive, they are deprived of youth workers, and then turning next, perhaps just to the illegal aliens, Mexicans, then finding more and more risks, what happens next? We go out of the business altogether.

Therefore, thousands and thousands and thousands of agricultural jobs simply disappear as a result of rising wage structures, but what I worry about is not the economics, I worry about this much more, because I have been a teacher all my life in the development of young men and women, or let us say teenagers, into young men and women, and I do not regard the work of youngsters, 16, 17, as economically as important as educationally important.

The acceptance of responsibility, growing up, accepting that responsibility. If that becomes too expensive to the employer, and he has to stop doing it, then I think it becomes a disaster.

Now, turning to manufacturing, we just recently moved to a new house in Washington, after leaving California, and we bought an awful lot of odds and ends, household equipment, kitchenware.

Constantly you see on these items: "made in Taiwan, made in Singapore, made in Korea"—somebody is getting all that labor. It is no longer possible in this country.

I raise the fact, in the maturation of young men and women, as they mature, which I think is a very, very important point, beyond economics, that we ought to be considering, but the constant argument for minimum wage is that as you increase the minimum wage, the general level of prosperity will be improved, so we push for $2, and then for $2.35, and then for $3, and then for $4, and so on.

Now, at what point does it become counterproductive to raise the minimum wage, and if the argument for $2.50 is sound, maybe they are sound for $3; and if they are sound for $3, maybe they are sound for $4; and if they are sound for $4, then they could be equally sound for $10.

Now, at what point does the minimum wage go up? Now, I would like to ask you that question.

Mr. NATHAN. Let me take a quick whack at that, Senator Hayakawa, if I may.

First of all, your illustrations about the chinaware, and I see the same thing, I see "made in Korea, India, Singapore" and the like, but this is a part of the process of development.

I happen, myself, to be more inclined toward a liberal trade policy than a restrictive trade policy. I think this country would not have been anywhere near as advanced as it is today if we had tried to hold on to producing artificial flowers, and knit gloves, and crocheting, which left our stores a long time ago.

Each time there were complaints that jobs were lost. That is true, but on the other hand, we did advance in more technologically skilled areas, and we got higher pay, more productivity, and higher living standards.

I do not believe that this problem manifests itself only in this trade picture. We are giving up low-paying jobs. We hope that Japan and other places will open up their trade outlets, and we can balance off our trade with the OPEC nations to offset huge costly oil imports and achieve a better balance.

Now, the question you really raised, which is a very good one, is at what point does the rise in the minimum wage make sense? Is it 10 cents an hour or $1 an hour? This is a variable factor.

I remember when the initial 25-cent level went into effect. I was in the Department of Commerce, working on national income at the time, I remember many people in the South who said that if you put a 25-cent minimum wage on, you are going to destroy the South. Today, I think the South is more prosperous than it has ever been, relative to the rest of the country, though not only because of minimum wage.

The minimum has to be substantially below the prevailing wage. The prevailing wage presumably arises out of collective bargaining between labor and management, taking into account productivity. If we start pushing that minimum too close to the average wage, I think we do create very serious problems and distortion in the wage pattern. But as we look at the figures, Senator, we find that, in essence, the minimum

wage today is a lower ratio to the average in manufacturing than it was 15 years ago.

We do have to exercise considerable restraint and we have done that. The problem is setting that minimum wage at a level where the benefits exceed the cost; that is, in essence, the real economic return is greater than the economic cost.

Where we fall apart is trying to measure imports. Jack Carlson says the new minimum will reduce jobs by 800,000 to 900,000. Secretary Marshall says by as many as 90,000.

We were told this morning, one business person mentioned the specific figure 900,000-some-odd. I have noted in a lot of studies where you have differences in results where economists put different numbers into the computer and different numbers emerge.

Senator HATCH. Is it worth the risk?

Mr. NATHAN. But the question is where does that risk lie? If you ask yourself why businesses are not investing at higher levels you get different answers. I said to an executive in the steel industry, why are you not investing today? He stated they are afraid the leader will try to fight inflation with unemployment, and stop growth and new capacity won't be needed. There are a whole range of factors to be considered.

But I think the important thing Senator, is we ought to set a minimum substantially below the average. I think anything like $4 or $5 at this time would not make sense. I think that $2.65—when you look at the pluses and minuses—is a pretty good compromise for a figure under all circumstances under which we now exist.

The CHAIRMAN. Any other comments?

Dr. LEVITAN. I never had a question posed by a Senator in semantics. So I will be very careful.

I do not think there is an answer to that question, except that we can learn from past experience and we have had some 39 years of experience. It is a matter of judgment, and I believe that a minimum wage equal to 50 percent of manufacturing wage is a reasonable approach. But basically the same question that you are raising about the minimum wage applies to anything else that the Congress is doing.

For example, we have a military force of 2.1 million. Is this the optimum level or the level Congress is willing to support? And we maintained this force level for several years despite changing international conditions.

I do not know of any other issues that you face in Congress, in which you do not make an arbitrary decision. My two colleagues and myself hold that the minimum wage should be set between 50 and 53 percent But you will hear from other witnesses, one a very learned gentleman, from your State, who will question this conclusion.

Now, which is the right answer?

Senator HAYAKAWA. I think we ought to proceed to the next step in the hearing, Mr. Chairman.

The CHAIRMAN. Gentlemen, we are so grateful.

Our next group of witnesses is a panel of economists in opposition to minimum wage increase: Dr. Walter E. Williams, Temple University; Dr. Thomas Sowell, Hoover Institution, Stanford University; and Dr. Marvin Kosters, American Enterprise Institutes.

Gentlemen, we are grateful to you in presenting your testimony on the minimum wage bill.

STATEMENTS OF DR. WALTER E. WILLIAMS, TEMPLE UNIVERSITY, DR. THOMAS SOWELL, HOOVER INSTITUTION, STANFORD UNIVERSITY, AND DR. MARVIN KOSTERS, AMERICAN ENTERPRISE INSTITUTES, A PANEL

Dr. SOWELL. Thank you.

Before I begin, let me say first of all that I have no intention of going into this neoclassical model that you heard about, or any other straw man. I also have no intention of contesting with my former colleague, Professor Galenson, in amateur psychoanalysis of black teenagers.

I have had some experience in that role myself, both as a low-wage worker and an unemployed teenager.

Let me state, as well, that there has been a lot of talk about how there has been no evidence. What I think the record will really show, if you look at the Labor Department studies, is that the evidence has been systematically ignored by the Labor Department, and by people who have chosen to support the Labor Department position.

Once, in an idle afternoon at the Bureau of Labor Statistics, I went through a set of studies of the effects of minimum wages, and I found, in 10 studies, that employment had gone down after the minimum wage. In none of those studies did they conclude that the minimum wage caused employment. In seven of those studies they tried to find other reasons. So there will be no evidence, as long as people try to pursue that line.

The presently proposed minimum wage legislation raises two major sets of issues:

(1) The question of the real effects of minimum wages, as such, and

(2) The effect of the new principle of automatically escalating minimum wage levels, tied to earnings elsewhere in the economy.

Because of inflation, minimum wage levels have been periodically reviewed, and therefore the general issues and growing evidence on the actual effects of the Fair Labor Standards Act have also been reviewed.

What an automatic escalation provision means is that we stop looking at the evidence. And we would stop at a time when a growing body of research by independent economists around the country is documenting the negative effects of the minimum wage law—and particularly its devastating impact on job opportunities for minority teenagers.

Minimum wage laws have been aptly described as "anathema to economists." Even though 88 percent of academic economists supported the "war on poverty," 61 percent of those same economists opposed the minimum wage law.

In short, this is not opposition based on philosophy or political leanings, but on economic analysis and on the mounting factual evidence that the law increases unemployment among the very people intended to be benefited.

Moreover, economic research has also revealed a disturbing correlation between teenage unemployment rates and teenage crime rates. In view of this, this seems like a particularly inappropriate time to stop looking at the evidence by putting in an escalator clause that will give the law a life of its own, independent of its effects on people.

The minimum wage law might be discussed in terms of philosophical, political or economic theory, but the real issues turn on facts. The crucial factual question is whether eliminating wage rates below some designated level also eliminates jobs.

As a realistic matter, few people of any philosophical, political, or economic persuasion would want to see either (a) job seekers unemployed with a hypothetical right to a "living wage," or (b) people employed at very low wages when they could be equally fully employed at normal wages.

While facts are crucial, they are not easy to get, for a number of which will be discussed. It will also be necessary to consider a number of standard (or stereotyped) arguments about the minimum wage effects which have persisted over the years. These arguments are in my prepared statement, and I will not repeat them all here at this point.

Finally, I would like to venture a few suggestions about the continuing need to assess the impact of the law, and some ways that assessment might be improved.

There are serious problems inherent in trying to study the unemployment effects of minimum wages, as well as other problems that derive from the way the U.S. Department of Labor chooses to approach the issue.

One problem that plagues minimum wage effects studies is getting statistical data for the specific workers directly affected by the minimum. Such workers are often only a small fraction of the total workforce. Even where a substantial proportion of the directly affected workers lose their jobs as a result of a minimum wage increase, this effect can be lost statistically in the random fluctuation in the employment of the much larger number of workers whose wages were always above the minimum.

The statistical extraction of the relevant changes is analogous to trying to receive an electronic signal through a heavy background of static noise. Different economists use different methods and devices to mute the background statistical noise in order to read the signal.

As a result of their different procedures for grappling with this problem, economists' numerical estimates of the unemployment effect of the law differ—a variation seized upon by proponents of minimum wages—but it is increasingly clear that the consensus of these studies is that the law does cause substantial unemployment, and that is more fundamental than the question of exact numbers.

One of the simplest ways of reducing the statistical noise in the data is by selecting some age group which is known to receive very low wages, so that a relatively high percentage of the people in the category chosen are earning low enough wages to be directly affected by minimum wage changes.

Teenagers are an obvious choice, and nonwhite teenagers even more so. I might mention that despite the optimistic statement that was made about how a tight labor market would solve the unemployment problems of teenagers, and the magic year of 1960 was chosen as one example of this, in fact in 1960, according again to official Government statistics, blacks, aged 16 and 17 had unemployment rates of 22.7 percent, blacks 18 and 19 had unemployment rates of 21.5 percent.

If this is the kinds of prosperity they are going to give us because of the tight labor market, I am not sure how much we can take.

Here the serious unemployment effect of minimum wage rates has been repeatedly demonstrated by economists operating independently of one another and using different statistical methods.

Extremely high unemployment rates among black teenagers have been so highly publicized in recent years, and so automatically attributed to employer discrimination, that certain historical facts must be noted. Large racial differences in teenage unemployment are of relatively recent vintage.

In the late 1940's and early 1950's, there were no such large differences, and indeed, black youngsters 16 and 17 years old had consistently lower unemployment rates than whites in the same age brackets. Surely no one is going to claim that these was less employer discrimination then than now. We all know better. What was the difference then? Minimum wages had not yet begun the rapid rise and spreading coverage which has been the dominant pattern since then.

The unemployment effect of minimum wages can also be seen in international comparisons of countries that do and do not exempt young people from the adult minimum wage. In countries where such exemptions are slight or nonexistent—such as the United States and Canada—youth unemployment is some multiple of adult unemployment. But where there are exemptions that are large and cover a number of working years—as in England, Germany, and the Netherlands, there are no significant differences between youth unemployment rates and adult unemployment rates.

I am drawing upon Labor Department statistics here, but again, the Labor Department, although it prints the statistics, does not print the conclusion. I think it is very lame that the people that want to argue from the European experience that the differential does not matter, are forced to rely on such evidence as the fact that Secretary Vance is calling an international conference.

I am not sure what that means as far as the empirical effects of minimum wages on unemployment.

These findings may reflect the special vulnerability of teenagers as an inexperienced and relatively unskilled group—or they may reflect the greater statistical ease of determining the facts for this group.

A recent survey of minimum wage studies notes "the lack of acceptable continuing data on low wage adults." The same things known to be happening to teenagers may also be happening to other very low wage people, who happen to not be grouped together statistically.

There are some scattered clues that this is in fact the case. For example, an older study of domestic servants, before they were covered by the Fair Labor Standards Act, showed that their ranks tended to be increased in the wake of minimum wage increases, suggesting the displacement of low skill women from other employment that was covered by the act.

Factual studies by independent—usually academic—economists must be sharply distinguished from studies by the U.S. Department of Labor. The Labor Department itself has recently been forced to acknowledge the gap between its perenially optimistic conclusions and the consensus of independent studies, the latter "using advanced economic and statistical analyses."

The crudity of the Labor Department studies has been scathingly criticized by academic economists. However, even so, the actual num-

bers appearing in Labor Department studies of minimum wage effects often show employment declines in the wake of minimum wage increases, even though the stated conclusions of these very same studies may be that the minimum wage did not cost people their jobs.

Congressman Dent is correct only in the narrowest sense when he asserts that "not once in the history of the minimum wage has there been an adverse report" from the Labor Department about "the lessening of job opportunities."

In this context, such a statement is far from reassuring. It will hardly be the first clean bill of health given by an agency evaluating itself, or the legislation on which its own appropriations and staff depends. This is especially unsurprising to me, as one who worked inside the Labor Department on minimum wage research, and who personally experienced the pressures to reach conclusions consistent with the Department's interests.

In conclusion, the minimum wage law addresses a serious social problem, but creates no new options for dealing with it. In fact, it simply reduces the set of existing options available to the parties—employers and employees—who must voluntarily agree if there is to be a job.

Trying to make people better off by reducing their options seems questionable even as a theory. In practice, what has happened has been that fewer transactions—less employment—have taken place when there were fewer options open to the parties. It would be very surprising if it were otherwise.

The great unsolved problem remains of what to do about the poor in general, or the low wage workers in particular, low wage workers is not changed by calling them higher wage workers, any more than students are improved by calling them B students instead of C students.

The tragic educational results from the process of upgrading by fiat is hardly a recommendation for extending this practice into the economic sphere. In both cases, it is, of course, much harder, much slower—and more heartbreaking—to try to create real skills and real achievements. And yet nothing else will really do the job.

Automation escalation compounds the problems of the minimum wage law by making it possible to close our eyes to its effects hereafter. This seems unconscionable when those affected are poor, vulnerable, powerless, and inarticulate.

If the Congress does not monitor what happens to them, there is no other powerful institution to do so. The set of incentives confronting the U.S. Department of Labor makes it unrealistic to expect it to critically evaluate minimum wage effects, and nearly 40 years of history makes it painfully apparent that it has no intention of doing so. Labor unions have their own imperatives and constraints. For them, the minimum wage law presents the same kind of opportunity that a tariff presents to a business firm. It is a way to price competitors out of the market.

That this is accompanied by humanitarian statements may be a matter of rhetorical, or perhaps political, interest but it changes no economic fact.

In the Union of South Africa, minimum wage laws were applied to native black Africans for the explicit purpose of stopping their competition with European workers. In the days of the British Em-

pire, British unions and manufacturers attempted to get minimum wages applied to India for similar reasons, though with different rhetoric.

American unions and businessmen have been doing something very similar in Puerto Rico and other affiliated territories where minimum wages are set by tripartite boards of mainland Americans, often from competing firms.

The point here is not to depict anyone as particularly evil. The point is that powerful institutional incentives exist to use the minimum wage laws for purposes very different from those announced in the act, and that these institutional incentives are likely to persist through turnovers of personnel, in the future as in the past.

Special interests, recognized as such, may be kept within bounds. For the special interests revolving around the minimum wage laws, congressional oversight seems especially needed, and therefore automatic escalation seems especially dangerous.

Finally, my hope would be that some way might be considered to have the statistical analysis of minimum wage effects performed by some organization other than the agency whose own fate is intertwined with that of the Fair Labor Standards Act.

Thank you.

Senator HATCH. I would like to ask, seeing that the data to be submitted by Dr. Carlson, to the prior witnesses, I would also ask that they be submitted to these three economists, so that they can also respond.

The CHAIRMAN. Is it clear to them what data we are going to present?

Senator HATCH. I have asked that Dr. Carlson submit his data, on his figures on the high unemployment by minimum wage, and that it be submitted to you three economists for your response, too.

Dr. SOWELL. Yes, thank you very much.

Senator HATCH. For the record.

Senator JAVITS. Yes. Proeconomists.

Senator HATCH. Yes, and if Dr. Carlson wants to respond, I would like to have that ordered in the record.

The CHAIRMAN. Fine.

All right, gentlemen, you can proceed.

Dr. KOSTERS. Mr. Chairman, I welcome this opportunity to discuss issues relating to the Federal minimum wage. I am very much encouraged by the interest that is being shown in seriously examining the issues that are relevant to considering an increase in the basic minimum wage level and related changes.

I will briefly discuss what I consider to be some of the main issues—first in general terms, and then in terms of the approach proposed in the bill, S. 1871.

The question of the effects of the minimum wage on employment is perhaps the most convenient place to begin a discussion of the implications of raising the minimum wage. Much of the extensive research on minimum wage issues that has been done in recent years has been addressed to this question, and whether employment effects are important or not is a question of general interest.

Employment effects are, of course, not the only perspective from which minimum wage policies should be examined. The influence of

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the minimum wage on the distribution of income must also be considered as well as, for example, its influence on inflation. Moreover, in addition to effects on employment levels, related questions concerning where these employment effects are concentrated and how job characteristics are affected should also be considered.

On the question of the effects of the minimum wage on employment, there is considerable agreement among professionals who have examined the evidence that raising the minimum wage results in lower employment for certain groups. The groups affected are those at the low end of the wage distribution—groups in which many are working at wages below the level to which the minimum wage is raised, mainly teenagers.

For these workers, the possibility of a job at a higher wage is accompanied by increased difficulty in finding anyone willing to pay the higher wage. The net result shown by the evidence from a large number of research studies is that higher minimum wages mean fewer jobs.

I do not think it would be overemphasizing areas of agreement to say that there is now little dispute among professionals about whether raising the minimum wage would have disemployment effects. Instead, disagreement about employment effects is now mainly centered on the magnitude of the effects.

For example, Secretary Marshall is reported to have indicated that he would not deny that raising the minimum wage would have some disemployment effects. The estimate that he presented of 90,000 people is apparently based on relatively low estimates of the magnitude of minimum wage effects.

Estimates from a research paper by Welch & Cunningham, scheduled to be published in the Review of Economics and Statistics, would lead to disemployment estimates of five to seven times as many people.

Disemployment effects are not uniformly spread among people, however, even for groups such as teenagers. They are instead concentrated among younger teenagers, among black teenagers compared to white teenagers, and, in general, teenagers with the lowest earning capability. There is also evidence of more part-time work among those employed compared to full-time work. Higher minimum wages may also lead to lower training provided by employers, in addition to limiting opportunities for work experience for those who could benefit most from this contribution to their earning potential in the future.

Higher minimum wages, of course, alter the income distribution in favor of workers able to obtain employment at the higher wage levels. The appeal of the minimum wage as a way to reduce poverty or to increase equality in incomes is limited, however, by the loose relationship between family income and low wages, particularly for teenagers.

In fact, one study reports that family income for low-wage teenagers is higher on average than for high-wage teenagers. Moreover, to the extent that higher minimum wages are translated into higher labor costs and prices—more inflation—attempts to alter the distribution of income through higher minimum wages are at least partly self-defeating. Higher minimum wages may be relatively quickly reflected by higher consumer prices because a large share of low-wage workers are employed in the retail trade sector as well as in agriculture. I am not aware of any study in which this issue has been examined that has

concluded that raising the minimum wage is an effective or efficient device for modifying the distribution of income.

In view of the evidence of disemployment effects for teenagers of an increase in the minimum wage, concern has sometimes been expressed that more jobs for teenagers at a lower minimum wage would mean correspondingly fewer jobs for adults.

Although there is little evidence on this issue, these points should be noted in considering its possible significance.

First, since a higher proportion of teenagers are part-time workers than is the case for adults, the typical job for a teenager involves fewer hours of work.

Second, the contribution to production of a teenage worker is on average lower, as measured by their wages, than for adults. Adjustments for both of these factors should be made for comparisons of the number of jobs for teenagers equivalent to an adult job.

Third, and most importantly, the total number of jobs in the economy at any time depends in part of wages that must be paid. Thus, lower minimum wages have job creating effects that augment the total number of jobs in the economy in addition to changes in the distribution of jobs that may take place.

There are two issues that I would like to focus on in terms of the minimum wage changes in the current proposal. The first is the potential merit of differential minimum wage levels for groups most vulnerable to the disemployment effects of an increase in the general minimum wage.

I believe that a graduated youth differential, rising toward the general minimum wage with age, should be considered. The additional opportunities for work experience that could be expected for low-wage teenagers could make a valuable contribution to the earning prospects of the relatively disadvantaged young workers. Moreover, according to the available evidence, the influence on the income distribution of a youth differential would be essentially neutral.

In addition, a youth differential would permit funding of more youth jobs under Federal employment and training programs since, according to recent reports, the proposed minimum wage increases would result in 200,000 fewer jobs funded for the coming fiscal year.

Another group for which a differentially lower minimum wage could be considered is those over age 65. This is a group in which many of those who are working receive low wages. People in this age group are frequently encouraged to engage in volunteer work, both for the contribution they can make and the enrichment of their lives. It seems somewhat inconsistent to restrict their choices to either volunteer work, with no wages to cover out-of-pocket costs, or securing a job at or above the general minimum wage level.

The second issue is the proposal for indexing general minimum wage levels. In the first place, to the extent that the minimum wage is viewed as an income maintenance policy, it would seem more appropriate to use an index of consumer prices than to use a wage index. The general issue of whether indexation is appropriate at this time may, however, be more important.

Indexing, according to the proposed formula, would bring the minimum wage to a level relative to average wages that is high by historical standards—nearly 10 percentage points above its average the last

40 years—and it would remain at that level—apart from temporary divergences associated with different rates of inflation—until a reassessment by the Congress.

During the past few years, a great deal has been learned about the effects of minimum wages from many careful research studies. While unresolved issues remain, we can reasonably expect that new and better information and insights will be developed in the future. Consequently, I believe that the opportunity for the Congress to periodically reassess minimum wage policy should be retained so that new research results and experience can be taken into account.

In summary, if an increase in the minimum wage is regarded as necessary at this time, establishing fixed increments is preferable to indexation because it more readily permits reassessment and revision of minimum wage policies in light of new information and experience. Special differentials for groups most affected by minimum wages would help to minimize adverse employment effects.

The CHAIRMAN. Thank you.

Dr. WILLIAMS. Mr. Chairman, thank you. I welcome this opportunity to expand and summarize some of the things that I wrote in my report on "Youth and Minority Unemployment" for the Joint Economic Committee.

Senator HATCH. Could I ask unanimous consent, Mr. Chairman, that Dr. Williams' report be printed in the record as part of the record since, as I understand it, it is definitive research in this field?

The CHAIRMAN. It will be.

[The following was received for the record:]

95th Congress
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JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

SPONSORED BY

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ORRIN G. HATCH, *U.S. Senator*
CLARENCE J. BROWN, *U.S. Representative*
JOHN H. ROUSSELOT, *U.S. Representative*

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LETTERS OF TRANSMITTAL

JULY 1, 1977.

To the Members of the Joint Economic Committee:

Transmitted herewith is a study entitled "Youth and Minority Unemployment" by Walter E. Williams. This study is sponsored by four Minority Members of the Joint Economic Committee, Senator James A. McClure, Senator Orrin G. Hatch, Representative Clarence J. Brown, and Representative John H. Rousselot. The views expressed in this study are those of its author and do not necessarily represent the views of the members of the Joint Economic Committee or the committee staff.

Sincerely,

RICHARD BOLLING,
Chairman, Joint Economic Committee.

JUNE 27, 1977.

Hon. RICHARD BOLLING,
Chairman, Joint Economic Committee,
U.S. Congress, Washington, D.C.

DEAR MR. CHAIRMAN: Transmitted herewith is a study entitled "Youth and Minority Unemployment" by Walter E. Williams. This study was prepared for the use of the Joint Economic Committee in its continuing examination of the problems of youth and minority unemployment.

The author has studied various market restrictions which he believes exacerbate employment problems of youth and minority workers. To this end, the study reviews some of the current literature on the effects of minimum wages on minority and youth unemployment. The study also surveys the possible adverse results from the market control of unions, the Davis-Bacon Act, job discrimination, licensure, inadequate educational skills, and present manpower policies.

While some of the conclusions of the author may be provocative, they should stimulate additional discussion of the problems of teenage unemployment.

Sincerely,

JAMES A. MCCLURE,
ORRIN G. HATCH,
CLARENCE J. BROWN,
JOHN H. ROUSSELOT,
Members, Joint Economic Committee.

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YOUTH AND MINORITY UNEMPLOYMENT

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YOUTH AND MINORITY UNEMPLOYMENT

By WALTER E. WILLIAMS* **

Persistently high rates of unemployment in several segments of the United States labor force is one of the most difficult unsolved socioeconomic problems of the post-World War II era. The segments of the labor force that seemingly produce the most intractable problem, in terms of finding a solution, are its youth and minority members. These segments of the labor force pose an especially perplexing problem because they face high rates of unemployment *even* when the labor force as a whole experiences relatively low rates of unemployment. This study will focus especially on the problem of youth unemployment, with particular emphasis on minority youth, hoping to: (1) Understand the scope and character of the problem, (2) analyze possible causes of the problem, (3) comment on the effectiveness of past and proposed policy, and (4) make some of its own policy recommendations.

SCOPE AND CHARACTER OF THE PROBLEM

In 1947 the male teenage (16–19) unemployment rate stood at 10.9 percent compared to the overall rate among all males of 4 percent.[1] Female teenage unemployment in 1947 was 7.8 percent while the overall unemployment rate among their older counterparts was 3.7 percent.[2] By midyear 1975, teenage unemployment reached 21.2 for males and 19.6 for females.[3] In no year during 1948–76 did male or female teenage unemployment rates ever fall below the 7 percent level, which was approached in 1953. These figures are shown in table 1.

During this postwar period youths, age 20-24, fared better in the labor market than did their younger counterparts but compared poorly to their older counterparts (the general labor force). In 1947 males 20-24 had an unemployment rate of 8.5 percent while females in the same age group experienced an unemployment rate of 4.6 percent. By midyear 1975, these figures for males and females respectively had risen to 15.1 percent and 12.8 percent.[4] Generally, in recent years, teenage unemployment has averaged 5 times that of the civilian labor force over 25 years of age, while youths 20-24 have experienced an unemployment rate which has averaged 2.5 times that

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** This study was done for the Joint Economic Committee, U.S. Congress. The views expressed herein do not necessarily reflect those of the Joint Economic Committee nor those of my colleagues at Temple University.
[1] U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition" (Washington, D.C.: U.S. Government Printing Office, 1975), p. 148.
[2] Ibid., p. 149.
[3] U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment in 1974-75 Recession," Monthly Labor Review (January, 1976), p. 52.
[4] Ibid., "Youth Unemployment," p. 52.

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TABLE 1.—UNEMPLOYMENT RATES, BY SEX AND AGE, 1948–76

Year	Males			Females		
	Total 16 and over	16–19	20–24	Total 16 and over	16–19	20–24
1948	3.6	9.8	6.9	4.1	8.3	4.9
1949	5.9	14.2	10.4	6.0	12.3	7.3
1950	5.1	12.7	8.1	5.7	11.4	6.9
1951	2.8	8.1	3.9	4.4	8.3	4.4
1952	2.8	8.9	4.6	3.6	8.0	4.5
1953	2.8	7.9	5.0	3.3	7.2	4.3
1954	5.3	13.5	10.7	6.0	11.4	7.3
1955	4.2	11.6	7.7	4.9	10.2	6.1
1956	3.8	11.1	6.9	4.8	11.2	6.3
1957	4.1	12.4	7.8	4.7	10.6	6.0
1958	6.8	17.1	12.7	6.8	14.3	8.9
1959	5.3	15.3	8.7	5.9	13.5	8.1
1960	5.4	15.3	8.9	5.9	13.9	8.3
1961	6.4	17.2	10.7	7.2	16.3	9.8
1962	5.2	14.7	8.9	6.2	14.6	9.1
1963	5.2	17.2	8.8	6.5	17.2	8.9
1964	4.6	15.8	8.1	6.2	16.7	8.6
1965	4.0	14.1	6.3	5.5	15.7	7.3
1966	3.2	11.7	4.6	4.8	14.1	6.3
1967	3.1	12.3	4.7	5.2	13.5	7.0
1968	2.9	11.6	5.1	4.8	14.0	6.7
1969	2.8	11.4	5.1	4.7	13.3	6.3
1970	4.4	15.0	8.4	5.9	15.6	7.9
1971	5.3	16.6	10.3	6.9	17.2	9.6
1972	5.9	15.9	9.2	6.6	16.7	9.3
1973	4.1	13.9	7.3	6.0	15.2	8.4
1974	4.8	15.5	8.7	6.7	16.5	9.5
1975	6.3	21.2	15.1	7.3	19.6	12.8
1976	7.3	19.1	12.9	8.6	18.9	11.9

Sources: U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition"; "Youth Unemployment in the 1974–75 Recession," Monthly Labor Review, January 1976; and "The Employment Situation," April 1977.

of the general civilian labor force. The unemployment rate for youths is cast in even dimmer light when we consider that while youths (16-24) comprise 25 percent (22 million) of the labor force, they represent 50 percent of total unemployment.

Statistical measures of youth unemployment disaggregated by sex and age tells only one part of the picture. If we analyze the racial composition of youth unemployment, another part of the problem stands out in stark relief. Negro youths constitute a little over 11.5 percent of the 16-24 age civilian labor force. While the unemployment rate for the entire 16-24 youth population in 1975 was about 17 percent, black youth unemployment was over 28 percent. About 365,000 Negro teenagers (16-19) or nearly 40 percent of the black labor force of that age are jobless. Unemployed Negroes age 20-24 totaled 375,000 or 23 percent of the black labor force of that age. Among black youth, in both age groups, unemployment is distributed nearly equally by sex. Statistics on black youth unemployment do not, themselves, give the full story for at least two reasons: (1) We have not discussed the discouraged worker, one who would prefer to be employed but has withdrawn from the labor market out of frustration, and hence would not be included in unemployment statistics; and (2) the statistics that we have cited are national statistics and they tell us nothing about regional differences in youth unemployment which has been estimated to be as high as 60 percent among blacks 16-19 in some urban areas. Composite statistics for the Nation as a whole on the basis of poverty and nonpoverty areas are shown in table 2.

TABLE 2.—UNEMPLOYMENT RATES FOR SELECTED GROUPS IN POVERTY AND NONPOVERTY AREAS

Sex, age, and color	Total United States				Metropolitan areas				Nonmetropolitan areas			
	Poverty areas		Nonpoverty areas		Poverty areas		Nonpoverty areas		Poverty areas		Nonpoverty areas	
	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976	1975	1976
TOTAL												
Both sexes, 16 years and over	11.2	10.6	8.7	8.1	13.5	14.2	8.6	8.1	9.7	8.2	8.9	8.1
Males, 20 years and over	9.7	9.0	7.2	6.7	12.6	13.8	7.2	6.7	7.9	6.1	7.2	6.8
Females, 20 years and over	10.2	9.3	8.0	7.5	10.3	11.1	7.7	7.5	10.1	8.0	9.1	7.6
Both sexes, 16–19 years	25.5	25.9	20.2	19.6	33.1	31.6	20.6	20.2	20.4	22.3	18.7	17.9
WHITE												
Both sexes, 16 years and over	9.2	8.5	8.3	7.7	10.5	11.2	8.3	7.7	8.6	7.4	8.5	7.8
Males, 20 years and over	7.9	7.0	6.9	6.4	9.8	10.4	6.9	6.3	7.2	5.6	6.9	6.6
Females, 20 years and over	9.0	7.9	7.8	7.1	8.5	9.7	7.5	7.1	9.2	7.1	8.7	7.4
Both sexes, 16–19 years	18.6	20.9	19.0	18.6	23.4	24.0	19.3	18.9	16.5	19.7	17.9	17.6
BLACK AND OTHER												
Both sexes, 16 years and over	16.4	16.0	12.5	12.5	16.9	17.6	11.7	12.4	15.5	12.9	17.8	13.3
Males, 20 years and over	14.8	15.0	10.9	10.9	16.1	18.3	10.2	10.7	12.5	9.2	16.1	12.5
Females, 20 years and over	12.8	12.4	10.2	10.9	12.2	12.4	9.3	10.8	14.1	12.3	15.8	11.9
Both sexes, 16–19 years	41.0	38.2	38.2	34.0	43.2	39.2	37.6	35.7	37.1	36.2	42.4	24.9

Source: U.S. Department of Labor, Office of Information, News Release, Apr. 12, 1976.

These statistics produce the unchallengable fact that the youth sector of the labor market experiences the highest rate of unemployment. The Nation's youth face a rate of unemployment which even in the best of times, stays at a rate often three and a half times that of the labor force as a whole.

High youth unemployment would not be such a critical problem if youth employment was considered only as a means to supplement family income or to earn "spending change." The absence or presence of early work experiences have effects which may spell the difference between a successful or unsuccessful future work career. The period 16 to 24 years of age, and perhaps even earlier, can be looked upon as one of transition-from-school-to-work. Early work experiences, even in the most menial of tasks, aids the individual in the acquisition of skills and attitudes that will make him a more valuable employee in the future. Early work experiences (1) teach individuals effective job search techniques; (2) teach effective work habits such as promptness, respect for superiors and other work habits; (3) provide self-respect and confidence that comes from being financially independent or semi-independent; (4) provide the valuable opportunity to make mistakes at a time when mistakes are not as likely to be as costly as they would be when the worker has dependents counting on him for a continuous source of income.[5]

The failure to acquire these labor market skills, that economists summarize as "investment in human capital" is not the only effect

[5] Many would argue that "dead-end" jobs deny the individual career related skills. However, skills such as those listed are missing in many of our disadvantaged youth and can be obtained in any job. Moreover, the whole notion of "dead-end" jobs is meaningless if it means a job without prospects for advancement. Most people experience career advancement across jobs as opposed to within a particular job. Moreover, to assign certain jobs as "dead-end" is unfortunate because it often creates false and unrealistic labor market expectations among our youth.

of high youth unemployment. Inadequate work opportunities may also act as disincentive for many youths to continue their formal training. Inadequate youth employment options may also contribute significantly to criminal activity and other antisocial behavior.

High youth unemployment has these effects which are undesirable from both an individual and social point of view. Quite naturally, at least two questions arise: (1) Why are youths, particularly minority youths, so disproportionately represented on unemployment rolls; (2) what set of policies might remedy this situation? The first question is essentially a question of cause and effect. Economic theory, as other theoretical frameworks, can readily answer this kind of question. By contrast, asking what government should do about teenage unemployment opens up the potential for unending debate. This is because no theory, including economic theory, can answer questions that are essentially normative. That is, while economic theory can definitely say who bears what burden of a particular policy, it cannot in any moral sense justify a policy or its distribution of the costs and benefits.

Economic theory can say this policy (law or program) produces that result. Thus, the following will constitute an analysis of youth unemployment, emphasizing causal factors.

Causes of Youth and Minority Unemployment

Before discussing factors having a direct bearing on youth unemployment some brief comments about the demand for, and supply of labor in general may be helpful.

Whatever the emotional value of the phrase, "Labor is not a commodity," the cry of many labor organizations, labor services are exchanged on the market and conform to the same laws of the marketplace as do commodities. Namely, the higher the wage for labor, the lower the demand for labor; and the higher the wage for labor, the greater the amount of labor offered. The truly unique aspect of the labor market is that people are not sold; only their labor services are sold.

When the wages for labor services rise relative to productivity, it does not necessarily follow that people will do without the service in question. On the contrary, people will seek substitutes for that resource whose price has risen. There is a vast array of substitutes. Some concrete examples with which we all are familiar will make this point clear.

Suppose the wage rate of labor producing shoes rises relative to its productivity. Shoe manufacturers can respond by: substituting machines for the labor (automation); substitute foreign for domestic labor by moving to countries where the labor is cheaper. Yet another response, that by consumers, is to substitute foreign-produced shoes for American-produced shoes. These responses have the net effect of reducing the demand for American labor that produces shoes.

Another example of responses to an increase in the wages of labor, say in the construction industry, is to substitute on-site construction with off-site construction. In other words, more preassembled construction materials are used. A response to an increase in the wages of skilled craftsmen is an increase in the number of people that undertake do-it-yourself type projects. A response to increases in the wage rates of elevator operators is the substitution of automatically operated

elevators for those that are manually operated (a transition that has become nearly fully complete). Obviously, an infinite variety of examples can be given of responses to changes in the price of labor. The crucial point that needs to be understood is that people do respond to changes in the price of resources in a way so as to economize on the usage of the resource whose price has risen.[6]

While many people are familiar with these examples, the "substitution effects" underlying the laws of supply and demand are not fully appreciated in many policy discussions. In the next sections I will present a theoretical discussion of labor market factors that affect youth unemployment with particular emphasis on labor market restrictions, followed by statistical evidence of these restrictions.

Minimum Wage Laws

Federal and State minimum wage laws are an act of governmental intervention in the labor market that are intended to produce a pattern of events other than that produced in a free market. In practice minimum wage laws specify a legal minimum hourly wage to be paid. Certain industries and worker classes are exempted from the law. Among the major exceptions are highly seasonal amusement area workers, restaurant employees who receive part of their wages in gratuities, employees in small firms (less than $500,000 in annual sales), some agricultural employees and college students doing summer work.

The debate over the desirability of the minimum wage law has continued for well over 50 years, producing little agreement between advocates and opponents. However, most economists agree on a number of issues concerning wage rates in general which can be helpful in evaluating the effects (not desirability) of governmental intervention in the labor market.

The minimum wage law raises the wage to a level higher than that which would have occurred with uncontrolled economic forces. Legislative bodies have the power to legislate a wage increase; this much is clear. But when they legislated a wage increase, have they also legislated a worker productivity increase? That is entirely unlikely. To the extent that the minimum wage law raises the pay level to that which may exceed some worker's productivity, employers will make adjustments in their use of labor. Such an adjustment by employers will produce gains for some groups of workers at the expense of other groups. Those workers who retain their jobs and receive a higher wage clearly gain. The most adverse employment effects fall upon those workers who are most disadvantaged in terms of marketable skills, who lose their jobs and their income.[7] This effect is more clearly seen if we put ourselves in the place of an employer and ask the question: If a wage of $2.30 per hour must be paid no matter who is hired, who does it pay the firm to hire? Clearly the answer, in terms

[6] It is interesting to note that labor organizations as well as others have invested resources in political action to subvert the operation of the free market by attempting to reduce the number of substitutes available. For example, they lobby for tariffs and import quotas on shoes, building codes which limit the amount of off-site construction, and limit the amount of do-it-yourself projects through codes requiring that, for example, certain types of house wiring be done by licensed electricians. The stated reasons given for these efforts are those of high social objectives such as: protecting American labor from sweat shops abroad, guarantee high quality workmanship, guarantee public safety, etc. Regardless of reasons given for such action, one effect common to all of them is to reduce the number of substitutes, reduce the level of competition, and raise product prices.

[7] Edmund S. Phelps, "Inflation Policy and Unemployment Theory" (New York: W. W. Norton and Co., Inc., 1972), pp. 64–66.

of economic efficiency, is to hire the worker whose productivity is the closest to $2.30 per hour. If such workers are available, it clearly does not pay the firm to hire those whose output is, say, $1.50 per hour. Even if the employer were willing to train such a worker, the fact that the worker has to be legally paid more than his output is worth plus training costs incurred makes on-the-job training an unattractive proposition.

The impact of legislated minimum wages can be brought into sharper focus if we ask the distributional question: Who bears the burden of legislated minima? As we said earlier, workers who are the most disadvantaged by minimum wage legislation are those that are the most marginal. These are workers whose employers perceive them as being less productive or more costly to hire, in some sense, than other workers. In the U.S. labor force, there are at least two segments that share the marginal worker characteristic to a greater extent than do other segments of the labor force. The first group consists of youths. They are low-skilled mostly because of their age, immaturity and lack of work experience. The second group, which contains members of the first group, are some ethnic groups such as Negroes, who as a result of racial discrimination and a number of other socioeconomic factors are disproportionately found among marginal workers. Other segments of the labor force represented among marginal workers in disproportionate numbers are women, the uneducated, and the physically handicapped. Unemployment statistics showing a comparison of teenage and general employment rates for the period 1948 to 1975 are presented in table 3.

TABLE 3.—COMPARISON OF TEENAGE AND GENERAL UNEMPLOYMENT RATES

Year	Unemployment rates both sexes		Ratio teenage, general
	General	16–19	
	(1)	(2)	(3)
1948	3.8	9.2	2.42
1949	5.9	13.4	2.27
1950	5.3	12.2	[1] 2.30
1951	3.3	8.2	2.48
1952	3.0	8.5	2.83
1953	2.9	7.6	2.62
1954	5.5	12.6	2.29
1955	4.4	11.0	2.05
1956	4.1	11.1	[1] 2.70
1957	4.3	11.6	2.70
1958	6.8	15.9	2.34
1959	5.5	14.6	2.65
1960	5.5	14.7	2.67
1961	6.7	16.8	[1] 2.50
1962	5.5	14.7	2.67
1963	5.7	17.2	[1] 3.02
1964	5.2	16.2	3.12
1965	4.5	14.8	3.28
1966	3.8	12.8	3.37
1967	3.8	12.9	[1] 3.39
1968	3.6	12.7	[1] 3.53
1969	3.5	12.2	3.49
1970	4.9	15.2	3.10
1971	6.9	16.9	2.86
1972	5.6	16.2	2.89
1973	4.9	14.5	[1] 2.96
1974	5.6	16.0	2.86
1975	8.1	21.9	2.68
1976	7.8	19.0	2.66

[1] Years when there were changes in either the amount or coverage of the Federal minimum wage law.

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition," p. 145.

Columns 1 and 2 show the unemployment rates for the general labor force and the teenage labor force. Column 3 expresses teenage unemployment as a ratio of the general labor force's unemployment rate.[8]

Table 3 shows that with increases in the Federal minimum wage the teenage unemployment rate relative to adult unemployment usually rises, i.e., the ratio increased (with the exception of 1956, 1968, and 1973). In each year, except 1956, 1968, and 1973, adult unemployment declined relative to that of teenagers following an increase in the Federal minimum. Arthur F. Burns, in a study of the impact of legislated Federal minimum wages, said:

> During the postwar period the ratio of unemployment rate of teenagers to that of male adults was invariablly higher during the 6 months following an increase of the minimum wage than it was in the preceding half year. The ratio of the unemployment rate of female adults to that of male adults has behaved similarly. Of course, the unemployment of teenagers and women depends on a variety of factors—certainly on business conditions as well as on minimum wage. I have tried to allow for this in a more refined analysis. It appears whether we consider the unemployment rates of teenagers or that of women, that its primary determinants are, first, the general state of the economy as indicated by the unemployment rate of adult males, second, the ratio of the minimum wage to the average in manufacturing. The influence to the wage ratio turns out to be particularly strong in the case of nonwhite teenagers.[9]

While most studies agree on the effect of the minimum wage law on youth unemployment, there is some disagreement on the magnitude of the effect. The U.S. Department of Labor conducted an investigation of the impact of the minimum wage law on youth unemployment.[10] It reached the conclusion that—

> Increases in the level and coverage of the Federal minimum wage may have contributed to the employment problems of teenagers, but it is difficult to disentangle such effects from numerous other influences. * * * The long run rise in the unemployment rate of teenagers relative to that of adults—especially marked since 1962—appears to have been associated with many factors. Compounding problems have been the increase in the relative size of the teenage population, the increase in the proportion of youth enrolled in school, and the shift of employment out of agriculture. [11]

One response to an increase in the minimum wage law is not to hire fewer teenagers but to hire teenagers with higher productivity. The Bureau of Labor Statistics found some evidence that this was occurring. They found that whenever an employer raised age or education requirements for any group, the most common reason given was increased costs of training and hiring and the second most common reason was the minimum wage.[12]

Perhaps in recognition of the adverse effects of the minimum wage legislation on youth employment, most States have established a differential wage minima for youth based on age, education, or work experience. Most have a youth minima ranging from 75 to 85 percent of the adult minima. The Bureau of Labor Statistics findings are mixed on the impact of youth wage differentials on youth unemployment. Some of the States surveyed report that the youth differential

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[8] For example, if such a ratio was 1, the two unemployment rates would be equal. If the ratio is 2, this means that teenage unemployment is twice as high as that of the general labor force.

[9] Arthur F. Burns, "The Management of Property" (New York: Columbia University Press, 1966), pp. 47–48.

[10] U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages" (Washington, D.C.: U.S. Government Printing Office, 1970).

[11] Ibid., p. 187.

[12] Ibid., p. 71. Perhaps one question that can be asked of advocates of the minimum wage law is that if it is such a good law, why permit exceptions?

is irrelevant to hiring decisions while others thought that youth unemployment would be higher without the differential.

Other factors play a role in reducing job opportunities for youth. Factors such as child labor laws which restrict hours of work,[13] the tedious process of employers and employees to get work certificates, and the attitudes and conduct of some youth.[14]

STATISTICAL STUDIES OF THE MINIMUM WAGE

A number of other important studies have tried to evaluate the effect of legislated wage minima on unemployment. The conclusions of some representative samples of these studies will be summarized in this section.

David E. Kaun[15] using census data found that statutory wage minimums caused plant closures and the replacement of labor by other productive inputs. Also the most adverse effects of statutory minimums were concentrated among minorities, teenagers and females.

Yale Brozen[16] in two studies discusses the impact of the minimum wage law. First he shows that the ratio of teenage unemployment to that of the general rate of unemployment rose and the ratio of non-white to white teenage unemployment rose following increases in the federal statutory minimum wage. In another study he concluded that workers adversely affected by the statutory minimum crowd into uncovered areas, such as domestic household work, increasing employment and depressing wages in the uncovered areas. See appendix tables at the end of the study for data supporting Brozen's conclusions.

Kosters and Welch[17] conclude that the minimum wage has had the effect of reducing job opportunities for teenagers during periods of normal employment growth and making their jobs less secure in short-term changes in the business cycle. They go on to conclude that a disproportionate share of cyclical vulnerability is borne by non-white teenagers and the primary beneficiaries of shifts in employment patterns are white adult males.

That increases in statutory legal minimum wages reduce employment opportunities for youth is not without dissenters.

Hugh Folk,[18] using Department of Labor data statistically analyzes the impact of minimum wages on youth unemployment and youth labor market participation rates. The study concludes that in no instance was the minimum wage variable statistically significant in explaining either teenage unemployment or labor market participation rates.

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[13] Years ago child labor laws prevented youth from working in dangerous mines and factories. Now these same laws prevent them from working in plush, air-conditioned buildings.

[14] The Department of Labor study reports that some youths have unrealistic wage expectations in view of their productivity and would not even accept employment at the then Federal minimum of $1.60 per hour.

[15] David E. Kaun, "Minimum Wages, Factor Substitution, and the Marginal Producer," Quarterly Journal of Economics (August 1965), pp. 478–486.

[16] Yale Brozen, "The Effect of Statutory Minimum Wages on Teenage Employment," Journal of Law and Economics (April 1969), pp. 109–122; Yale Brozen, "Minimum Wage Rates and Household Workers." Journal of Law and Economics (October 1962), pp. 103–109.

[17] Marvin Kosters and Finis Welch, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment," American Economic Review (June 1972), pp. 323–332.

[18] Hugh Folk, "The Problem of Youth Unemployment," in "The Transition From School to Work" (Princeton: Princeton University Press, 1969), pp. 187–205.

Folk's study, however, finds a significant relationship between the overall trend of teenage unemployment and the minimum wage law.

Michael C. Lovell,[19] in an analysis of the minimum wage law and teenage unemployment stresses the importance of the size of the teenage labor force, which grew as a share of the total labor force by over 50 percent between 1954 and 1968, as a cause of high teenage unemployment. Lovell feels that since teenagers are not perfect substitutes for adult workers, the increase in the teenage population would have pushed unemployment rates up in the absence of any change in the minimum wage.

Bowen and Finegan,[20] in a statistical study of the 100 largest metropolitan areas, report:

> To state the most important conclusion first: Metropolitan areas with high wage levels for teenage males tended to have relatively low activity rates for all three groups, although the coefficient for males 20–24 is small and just shy of significance at the 10 percent level. These are important findings because they provide strong support for the hypothesis that a generally high level of wages deters participation via a reduction in employment opportunities.[21]

In addition to the finding that low labor market participation rates are associated with high teenage wage levels, this study also finds that the intercity differences in teenage unemployment is associated with artificially high wage levels.[22] The study points out that wage level differentials *are not* caused by strictly market forces such as systematic productivity differences or high demand for teenagers. The differences are more likely to be associated with institutional forces such as legislated wages, community and union pressures.

The weight of academic research is that unemployment for some population groups is directly related to statutory wage minima. As mentioned earlier, the debate on the effects and the extent of those effects continues without full consensus. However, a consensus reached implicitly in all minimum wage studies, those of opponents and supporters, is that increases in statutory minimums do not increase job opportunities for the marginal or disadvantaged segments of the labor force.

MINIMUM WAGE AND NEGRO YOUTH

So far we have discussed youth unemployment in general. Now let us discuss and compare black youth unemployment and labor force participation rates relative to those of their white counterparts. Table 4 shows male youth unemployment by race and general unemployment. Tables 5 and 6 give civilian labor force participation rates by race and age for males and females respectively.

The most obvious observation from the tables is that black teenage (16–17) unemployment during earlier periods, 1948–54 (except 1949), was lower than white unemployment for the same age group. For black 18–19 year olds, the unemployment rates for the same period were higher than those of their white counterparts, but never more than 50 percent higher. For blacks 20–24, their unemployment rate relative to that of whites has not changed significantly (only minor fluctuations), during the period 1948–1975.

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[19] Michael C. Lovell, "The Minimum Wage, Teenage Unemployment and the Business Cycle," Western Economic Journal (December 1972), pp. 414–427.

[20] William G. Bowen and T. Aldrich Finegan, "The Economics of Labor Force Participation" (Princeton: Princeton University Press, 1969).

[21] Ibid., pp. 451–452. The authors define activity rate as the proportion of a population group who are enrolled in school, in the labor force, or both.

[22] Ibid., pp. 456–457.

TABLE 4.—COMPARISON OF MALE YOUTH AND GENERAL UNEMPLOYMENT BY RACE

Year	General	White, 16–17	Black, 16–17	Black/white, ratio	White, 18–19	Black, 18–19	Black/white, ratio	White, 20–24	Black, 20–24	Black/white, ratio
1948	3.8	10.2	9.4	0.92	9.4	10.5	1.11	6.4	11.7	1.83
1949	5.9	13.4	15.8	1.18	14.2	17.1	1.20	9.8	15.8	1.61
1950	5.3	13.4	12.1	.90	11.7	17.7	1.51	7.7	12.6	1.64
1951	3.3	9.5	8.7	.92	6.7	9.6	1.43	3.6	6.7	1.86
1952	3.0	10.9	8.0	.73	7.0	10.0	1.43	4.3	7.9	1.84
1953	2.9	8.9	8.3	.93	7.1	8.1	1.14	4.5	8.1	1.80
1954	5.5	14.0	13.4	.96	13.0	14.7	1.13	9.8	16.9	1.72
1955	4.4	12.2	14.8	1.21	10.4	12.9	1.24	7.0	12.4	1.77
1956	4.1	11.2	15.7	1.40	9.7	14.9	1.54	6.1	12.0	1.97
1957	4.3	11.9	16.3	1.37	11.2	20.0	1.79	7.1	12.7	1.79
1958	6.8	14.9	27.1	1.81	16.5	26.7	1.62	11.7	19.5	1.66
1959	5.5	15.0	22.3	1.48	13.0	27.2	2.09	7.5	16.3	2.17
1960	5.5	14.6	22.7	1.55	13.5	25.1	1.86	8.3	13.1	1.58
1961	6.7	16.5	31.0	1.89	15.1	23.9	1.58	10.0	15.3	1.53
1962	5.5	15.1	21.9	1.45	12.7	21.8	1.72	8.0	14.6	1.83
1963	5.7	17.8	27.0	1.52	14.2	27.4	1.93	7.8	15.5	1.99
1964	5.2	16.1	25.9	1.61	13.4	23.1	1.72	7.4	12.6	1.70
1965	4.5	14.7	27.1	1.84	11.4	20.2	1.77	5.9	9.3	1.58
1966	3.8	12.5	22.5	1.80	8.9	20.5	2.30	4.1	7.9	1.93
1967	3.8	12.7	28.9	2.26	9.0	20.1	2.23	4.2	8.0	1.90
1968	3.6	12.3	26.6	2.16	8.2	19.0	2.31	4.6	8.3	1.80
1969	3.5	12.5	24.7	1.98	7.9	19.0	2.40	4.6	8.4	1.83
1970	4.9	15.7	27.8	1.77	12.0	23.1	1.93	7.8	12.6	1.62
1971	5.9	17.1	33.4	1.95	13.5	26.0	1.93	9.4	16.2	1.72
1972	5.6	16.4	35.1	2.14	12.4	26.2	2.11	8.5	14.7	1.73
1973	4.9	15.1	34.4	2.28	10.0	22.1	2.21	6.5	12.6	1.94
1974	5.6	16.2	39.0	2.41	11.5	26.6	2.31	7.8	15.4	1.97
1975	8.1	19.7	45.2	2.29	14.0	30.1	2.15	11.3	23.5	2.08
1976	7.9	19.7	40.6	2.06	15.5	35.5	2.29	10.9	22.4	2.05

Source: Adapted from Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975—Reference Edition" (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 153–155.

Turning to tables 5 and 6, labor force participation rates, we make the remarkable finding that black youths 16–17, 18–19, and 20–24 had a higher rate of labor force participation during earlier times. In fact, the labor force participation rates were higher than labor force participation of white youths. For example, in 1955, in age group 16–17 the labor force participation rates of black males and white males were the same. In 1974 the labor force participation rates of blacks age 16–17 was only 65 percent of that of whites age 16–17. In the case of black males 18–24, their labor force participation rates in 1955 were higher than those of whites. Now it is lower.

Jacob Mincer, in an important econometric study of minimum wage laws reports:

> The net minimum wage effects on labor force participation appear to be negative for most of the groups. The largest negative effects are observed for nonwhite teenagers, followed by nonwhite males (20–24), white males (20–24), white teenagers, and nonwhite males (25–64).
>
> The net employment effects are negative with the exception of nonwhite females (20 plus), for whom the positive coefficient is statistically insignificant. The largest disemployment effects are observed for nonwhite teenagers, followed by nonwhite males (20–24), white teenagers, and white males (20–24).[23]

Professor Mincer's study points out that the official unemployment rate is likely to understate the disemployment effects of the minimum wage law. He states, "No more than a third of the employment loss in the covered sector appears as unemployment, while the bulk withdraws from the labor force." Incentives to drop out of the labor market and to become permanently unemployed are no doubt increased by the availability of alternative sources of income such as

[23] Jacob Mincer, "Unemployment Effects of Minimum Wages," Journal of Political Economy (August 1976), pp. 87–105.

TABLE 5.—MALE CIVILIAN LABOR FORCE PARTICIPATION RATIO BY RACE, AGE

	Black/white males			
	16–17	18–19	20–24	16 and over
$1 per hour:				
1954	0.99	1.11	1.05	1.00
1955	1.00	1.01	1.05	1.00
1956	.96	1.06	1.01	.99
1957	.95	1.01	1.03	.99
1958	.96	1.03	1.02	1.00
1959	.92	1.02	1.04	1.00
1960	.99	1.03	1.03	1.00
$1.15 per hour:				
1961	.96	1.06	1.02	.99
1962	.93	1.04	1.03	.98
1963	.87	1.02	1.03	.98
1964	.85	1.01	1.04	.99
$1.25 per hour:				
1965	.88	1.01	1.05	.99
1966	.87	.97	1.06	.98
$1.40 per hour: 1967	.86	.95	1.04	.97
$1.60 per hour:				
1968	.79	.96	1.03	.97
1969	.77	.95	1.02	.96
1970	.71	.92	1.00	.96
1971	.65	.87	.98	.94
1972	.68	.85	.97	.93
1973	.63	.85	.95	.93
1974	.65	.85	.95	.92
1975	.57	.79	.92	.91
1976	.57	.77	.91	.90

Sources: Computed from U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975 and 1976 Reference Editions" (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 36–37.

TABLE 6.—FEMALE CIVILIAN LABOR FORCE PARTICIPATION RATIO BY RACE, AGE

Year	Black/white females			
	16–17	18–19	20–24	16 and over
$1 per hour:				
1954	0.84	.72	1.12	1.38
1955	.76	.83	1.02	1.34
1956	.84	.84	.97	1.32
1957	.75	.81	1.02	1.32
1958	.81	.79	1.05	1.32
1956	.69	.71	1.10	1.33
1960	.74	.85	1.07	1.32
$1.15 per hour:				
1961	.73	.86	1.02	1.31
1962	.75	.88	1.03	1.31
1963	.77	.88	1.04	1.29
1964	.68	.94	1.10	1.29
$1.25 per hour:				
1965	.71	.79	1.12	1.27
1966	.74	.83	1.07	1.26
$1.40 per hour: 1967	.71	.92	1.03	1.23
$1.60 per hour:				
1968	.71	.88	1.08	1.21
1969	.69	.83	1.04	1.19
1970	.66	.81	1.00	1.16
1971	.60	.75	.97	1.15
1972	.54	.76	.95	1.13
1973	.58	.77	.93	1.11
1974	.56	.74	.91	1.08
1975	.60	.74	.86	1.08
1976	.55	.70	.86	1.07

Sources: Computed from U.S. Department of Labor, Bureau of Labor Statistics, "Handbook of Labor Statistics 1975 and 1976 Reference Editions" (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 36–37.

welfare, enrollment in training programs which provide a stipend and criminal activity as a form of earning a living.

These findings are consistent with and offer additional support to the theoretical proposition that statutory legal minimum wages reduce employment opportunities for disadvantaged or marginal workers. They are also consistent with Professor Arthur Burn's

earlier study which shows that an increase of 25 cents in the statutory legal minima is associated with a rise of 8 percentage points in nonwhite unemployment.[24]

YOUTH EMPLOYMENT IN OTHER COUNTRIES

Relevant to the analysis of youth unemployment in the United States is the comparison of youth unemployment records in other industrialized countries. In the United Kingdom, unemployment rates of both adults and youths ran about 2.5 percent as of January 1969. As shown in the following tables 7, 8, and 9, West Germany, The Netherlands, Sweden, Belgium, and Japan experienced relatively low rates of youth unemployment. It is probably no coincidence that countries experiencing low rates of youth unemployment are countries with relatively large wage differentials between the legal minima for youths and adults.

TABLE 7.—UNEMPLOYMENT RATES IN THE UNITED KINGDOM

Date	Unemployment rate			Youth-adult ratio
	All ages	15 to 19	25 and over	
April 1961	1.7	2.3	1.6	1.44
Do	1.3	.9	1.4	.64
July 1966	1.1	1.1	1.1	1.00
January 1967	2.2	2.6	2.1	1.24
July 1967	2.0	2.2	2.0	1.10
January 1968	2.6	2.6	2.5	1.04
July 1968	2.2	2.0	2.2	.91
January 1969	2.5	2.3	2.5	.92

Source: Data for table 7 was obtained from the U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages." (Washington, D.C.: U.S. Government Printing Office, 1970).

TABLE 8.—UNEMPLOYMENT RATES AND THE YOUTH-ADULT UNEMPLOYMENT RATIO FOR SELECTED COUNTRIES

Country	Unemployment rate, all ages		Youth unemployment rate		Youth-adult unemployment ratio [1]	
	1960–64	1967–68	1960–64	1967–68	1960–64	1967–68
Germany (1961–67)	[2] 0.3	1.1	[2] 0.3	1.1	[2] 1.0	1.0
Canada [3] (1962–66)	6.9	4.0	14.4	9.7	2.4	2.6
Netherlands (1960)	.9		1.4		1.8	
United Kingdom (1961–67)	[4] 1.3	[4] 2.0	[4] .9	[4] 2.2	[4] .6	[4] 1.1
	[2] 1.7		[2] 2.3		[2] 1.4	
Sweden (1964–67)	1.7	2.6	3.9	6.1	2.6	2.9
France (1960)	2.1		6.6		4.4	
Belgium (1960)	2.5		4.0		1.7	
Italy (1961–67)	3.4	3.5	9.3	11.4	4.9	5.7
United States (1960–68)	5.5	3.6	[5] 14.7	[5] 12.7	3.3	5.5

[1] Ratio of youth unemployment rate to adult unemployment rate for adults 25 and over. Data from labor force surveys except as noted. Data not strictly comparable among countries.
[2] Census data for 1961.
[3] Outry, Sylvia, unemployment in Canada, 1968, males only, ratio: youth/all ages.
[4] Labor Ministry data from unemployment insurance records.
[5] Youth unemployment data relate to 16- to 19-year-olds.

Source: Data for table 8 was obtained from the U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages." (Washington, D.C.: U.S. Government Printing Office, 1970).

[24] *Op cit.*, Arthur E. Burn, "The Management of Prosperity," p. 48.

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TABLE 9.—EMPLOYMENT STATUS OF TOTAL LABOR FORCE AND YOUTH IN JAPAN, 1961–67

[In thousands]

Years	Labor force		Employed		Unemployed			
					Total		15 to 19 years	
	Total	15 to 19 years	Total	15 to 19 years	Number	Percent	Number	Percent
1961	45,620	4,250	45,180	4,200	440	1.0	60	1.4
1962	46,140	4,260	45,740	4,200	400	.9	60	1.4
1963	46,520	4,080	46,130	4,020	400	.8	60	1.5
1964	47,100	3,820	46,730	3,770	370	.8	40	1.0
1965	47,870	3,920	47,480	3,860	390	.8	60	1.5
1966	48,910	4,360	48,470	4,300	440	.9	60	1.4
1967	49,780	4,510	49,350	4,150	440	.9		

Source: Data for table 9 was obtained from the U.S. Department of Labor, Bureau of Labor Statistics, "Youth Unemployment and Minimum Wages." (Washington, D.C.: U.S. Government Printing Office, 1970).

For example, in the United Kingdom, teenagers enter employment at about 30 percent of the adult wage and in steps reach the adult level when they are 21. In West Germany youths enter employment at wages ranging from 60 to 90 percent of the adult rate. In The Netherlands, the wage rates for youth normally begin at 25 to 30 percent of the adult wage rate, reaching 100 percent of the adult rate by the age 20 to 23. In France and Canada, there is only a 20 to 30 percent reduction for young workers and the duration of the reduction for the individual is only a year or so.

Another important feature of those countries experiencing very low rates of teenage unemployment, as reported in the Department of Labor study, was that there were good counseling services available for youth, large apprenticeship programs and good placement services. These factors reinforce the beneficial effects of the youth differential by making the young person an even more attractive candidate for employment.

Unions

Governmental market intervention through the minimum wage laws is not the only form of restrictive practice which limits job opportunities. The Congress through the Wagner Act of 1935 and its subsequent modifications conferred upon unions extensive labor market monopoly powers. The ways of market control used by unions are similar to those used by a group of firms that attempt to monopolize a market, i.e., that of price fixing. The most important difference is that price fixing, collusion and restriction of competition by firms is illegal, while price fixing, collusion and restriction of competition by unions is protected by the law and is legal.[25]

Unions have enormous power over many aspects of the labor market. Part of this power lies in its ability to influence wages and negotiate other aspects of the labor contract in its role of being labor's exclusive bargaining agent. A cursory review of the labor movement in the United States would reveal how organized labor, with but a few exceptions, sought to exclude Negroes and other minorities from many

[25] For an analysis of union collusive practices, see, G. Warren Nutter, "Limits of Union Power" in "The Public Stake in Union Power," ed., Philip Bradley (Virginia: University of Virginia Press, 1959), pp. 284–300.

job markets.[26] Exclusionary devices have ranged from union charter provisions that restrict membership to "white only," to requirements restricting membership to sons and/or relatives of union members, or job referral based on seniority rights. Today, union exclusionary techniques are not as flagrant, but strong exclusionary techniques do exist, as will be discussed.

Trade unions advance the economic interests of their members by negotiating agreements referring to the terms and the conditions of work. Their overall goal is to obtain higher wages for their members. To the extent that union activity can increase wages to a level higher than that dictated by the market, economic reasoning suggests that unions will be concerned with maintaining their relative advantage. Tactics to maintain their relative advantage consists of the following activities: (1) Restricting the supply of labor; (2) increasing the demand for the product its members produce; (3) the elimination of substitutes for its labor.[27]

There are several important ways that unions can control entry.[28] One way is through worker training. Since training is necessary for some skilled jobs, unions can regulate access to some programs that it manages. In most cases, however, unions cannot fully control the number of persons who learn a particular skill, but it can control the number of workers who are admitted to the union. Such a restriction is very effective if the union has an agreement, which most craft unions do, with the employer to hire workers who are referred by the union or hire workers who are acceptable to the union. Other union techniques to limit access to full membership status and apprenticeship programs are: (1) Age and citizenship requirements; (2) lengthy apprenticeship programs; (3) use of probationary union membership status and work permits for seasonal and temporary jobs to protect senior members in slack periods from job competition; (4) nepotic rules whereby preference is given to relatives of union members; (5) member sponsorship requirement in some unions; (6) worker competency requirements; and (7) racial discrimination. These exclusionary techniques are most often used in the craft unions (particularly the building craft unions),[29] but they are not completely absent in the industrial unions.

None of my arguments should be construed as antiunion statements nor is it implied that unions serve no useful social purpose. Whatever the stated purpose of union practices, one effect is to restrict entry to the craft. I might add that though unions today do not use explicit racial criteria for entry, per se, the widely accepted entry rules have a racial effect as suggested by the small numbers of minorities in many unions, particularly the craft unions.[30]

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[26] For extensive documentary see, Ray Marshall, "The Negro and Organized Labor" (New York: John Wiley & Sons, Inc., 1965); Sterling D. Spero and Abram Harris, "The Black Worker" (New York: Columbia University Press, 1931); Herbert R. Northrup, "Organized Labor and the Negro" (New York: Kraus Reprint Co., 1971); Gunnar Myrdal, "An American Dilemma" (New York: McGraw-Hill Book C., 1964).

[27] For this paper we are mostly concerned with labor supply restrictions. Examples of the last two union strategies are: union support for tariffs and quotas on cheaper foreign imports; support for building code restrictions on the use of off-site building assembly and featherbedding. See Richard A. Posner, "Economic Analysis of Law" (Boston: Little, Brown & Co., 1972), pp. 133-138.

[28] See Armen A. Alchian and Reuben A. Kessel, "Competition, Monopoly, and the Pursuit of Pecuniary Gain," in "Aspects of Labor Economics," ed. H. Gregg Lewis (Princeton: Princeton University Press, 1962), pp. 172-175.

[29] See, John Landon and William Peirce, "Discrimination, Monopsony, and Union Power in the Building Trades," Monthly Labor Review (April, 1972), pp. 24-26. See also, Herbert Hammerman, "Minority Workers in Construction Referral Unions," Monthly Labor Review (May, 1972), pp. 17-26.

[30] See Gary S. Becker, "Union Restrictions on Entry," in "Public Stake in Union Power," Philip D. Bradley (ed) (Virginia: University of Virginia Press, 1959), pp. 209-224, reports: "Discrimination against minorities and nepotism towards relatives also appear to be greater in craft unions and the greatest in the strongest craft unions."

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The Davis-Bacon Act

Another kind of market entry restriction is the Davis-Bacon Act. This act was enacted on March 31, 1931, for the purpose of protecting local wage rates on Federal construction from the competition with lower wage nonlocal labor. The requirements of the act were that all workers on Federal construction projects were to be paid the prevailing local wages, usually interpreted as being prevailing union wages. The proponents of the Davis-Bacon Act were concerned about the tendency for nonunion and nonlocal contractors to underbid contractors in a high wage and highly unionized areas. The proponents of the Davis-Bacon Act argued that successful bidders often imported labor from the South and other low wage areas, thereby producing unemployment and lower wages in high wage areas.[31]

One effect, relevant to the present discussion, of the Davis-Bacon Act, was that it discouraged nonunion contractors from bidding on government construction jobs mainly because to do so would disrupt a company's work force through problems that would arise from some of its workers receiving higher wages than those on private jobs and the morale problems when worker wages were reduced when the Government construction job was completed.[32] To the extent that nonunion contractors are discouraged from competition on a substantial part of the construction market, it has economic consequences for minority workers and young workers who are more likely to work in the nonunionized sector of the construction industry.[33] Furthermore, Professor Yale Brozen [34] argues that the high apprenticeship wage rates required by the Davis-Bacon Act discourages the use of apprentices on Federal construction jobs which acts to counter the Federal Government's efforts to train youth and minorities through its various manpower training programs.[35]

Discrimination

Discrimination in the labor market is one of the most frequently cited causes of black/white differentials in terms of labor force participation, rates of unemployment, and wages. No doubt, racial discrimination does play a part in explaining such differentials. However, there are many factors that influence labor market activity. Many of these factors are conceptually and/or statistically elusive which makes it very difficult to determine how much of observed differences between black/white labor market activity is due to racial discrimination.

For example, as shown in previous tables, black/white differences in labor force participation rates and unemployment rates, particu-

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[31] "The Legislative History of the Davis-Bacon Act" (Washington, D.C.: U.S. Government Printing Office, 1962), p. 1.

[32] General Accounting Office report to Congress, "The Need for More Realistic Minimum Rate Determinations for Certain Federally Financed Housing in Washington Metropolitan Area" (Washington, D.C.: U.S. Government Printing Office, 1968); see also, Richard L. Rowan and Lester Rubin, "Opening the Skilled Construction Trades to Blacks" (Philadelphia: University of Pennsylvania Press, 1972), p. 93.

[33] The "1967 Survey of Economic Opportunity" shows that only 27 percent of nonwhite craftsmen and 35 percent of nonwhite laborers in construction reported union membership.

[34] Yale Brozen, "The Davis-Bacon Act: How To Load the Dice Against Yourself" (unpublished manuscript), University of Chicago, 1971. Professor Brozen points to another undesirable consequence of the Davis-Bacon Act on minorities, though not an employment question. That is, the act hampers government efforts to stimulate production of low and moderate housing through its extension providing coverage for federally assisted housing. That is, the higher labor costs on federally assisted housing often offset the interest subsidy granted by the Federal Government.

[35] For an interesting summary of the effects of the Davis-Bacon Act, see John P. Gould, "Davis-Bacon Act: The Economics of Prevailing Wage Laws" (Washington, D.C.: American Enterprise Institute, 1972).

larly those of teenagers, are greater in the 1970's than they were in the 1940's. No matter what answer we give to explain this trend, the one that we cannot give is one that asserts that society in general has become more racially discriminatory over this period. In fact, a general consensus would reveal that the opposite is the case. The reason must lie elsewhere.

It is always quite difficult to discern, with complete confidence, whether a particular act or phenomenon in the labor market is caused by discriminatory motives. That is, the absence of minorities in some jobs may reflect real or imagined productivity differences. More reliable evidence for the possibility of inequality of job opportunity is whether there are institutional mechanisms that facilitate the indulgence in racial or sexual biases held by employers and "preferred" workers. In other words, my argument shall be that government efforts to promote job opportunity without regard to race or sex should be directed towards elimination of institutional mechanisms that promote (lower the cost of) indulgence in racial and sexual bias. What are the institutions that tend to produce this effect? The answer in general is that whenever there is an institutional provision that requires as one of the conditions of exchange that the terms of the exchange be sanctioned by a third party, there is an increased likelihood of some form of market irrelevant discrimination to exist. To see that this is the case is found in the answer to the question—why is it that racially discriminatory union membership policy adversely affects job opportunities for minorities? Clearly, if workers could obtain employment without joining the union, then whether the union practiced racially discriminatory membership policies or not would be irrelevant to minority job opportunities. But in many areas of the labor market unions control access to jobs and under such a condition union membership policy affects job opportunities for minorities.

Licensure

Entry into certain occupations is regulated by law. Licensure laws and certification requirements, though having some social merit, limit entry into trades and hence reduce employment opportunities. Licensing laws have another important effect which is: To the extent that it limits entry, licensure makes the incumbent practitioners' incomes higher than they would be in the absence of licensure. This helps us understand why many trade associations, using the powers of the State, seek to restrict entry.[36] Often these trade associations have real enforcement power in that members of licensing boards are most often incumbent practitioners.

The relevance of licensure to this discussion is that it is another form of labor market restriction that produces adverse effects that are mostly borne by youth, minorities, and other disadvantaged people. For example: The taxicab business is one in which there are low skill and low capital requirements for entry. It is also one where there can be gainful employment and a lucrative income can be earned. But participation by many would-be entrants is foreclosed by the

[36] See Simon Rottenberg, "The Economics of Occupational Licensing," in "Aspects of Labor Economics," (ed.) H. Gregg Lewis (Princeton: Princeton University Press, 1962), pp. 3-20. Also Walter Gellhorn, "Individual Freedom and Governmental Restraints," (Louisiana: Louisiana State University Press, 1956).

high entry costs in most cities. Some cities, like Los Angeles, have granted exclusive taxicabs monopolies to companies such as Yellow Cab. In other words, under the pain of punishment no other company can operate within the Los Angeles city limits. Some cities require a medallion for each vehicle. In New York city medallions cost between $26,000 and $28,000. In other cities such as Chicago and Baltimore, the fee varies from $14,000 to $18,000. There is no social justification for such a high entry fee; the sole purpose is to restrict entry, thereby keeping cab rates high and incomes high for the incumbent practitioners.[37]

There are a number of licensed occupations ranging from barbers and beauticians to tree surgeons having age and other restrictions that reduce employment opportunities that would otherwise be open for youth and many disadvantaged members of our population.[38]

Education

In a world of increasing credentialism and increasing skill level requirements, formal education tends to be correlated with job stability and employment. Department of Labor data show this correlation in table 10.

The youth group most adversely affected, as would be expected, by unemployment are those men and women who are high school dropouts. Their overall unemployment rate in October of 1975 was 25.3 percent compared to an overall unemployment rate for high school graduates of 13.6. For black youths who dropped out of high school, their unemployment rate was 35.4 percent. Perhaps more illuminating of the sad state of affairs for black youth is that the unemployment rate for black high school graduates was higher than the unemployment rate for white high school dropouts, 24.1 and 22.8 respectively.

There are a number of possibly appealing explanations for this latter aspect of black/white employment differences. But surely not to be excluded among those explanations is the poor high school education that many blacks receive. This is testified to by the fact that manpower programs have found that even the black participants with high school diplomas are deficient in reading and mathematic skills.[39] Whites also are faced with some deterioration in the quality of schooling in the United States. But poor quality education has a differential impact on blacks who not only come from families with low socioeconomic status, but also must fight the legacy of racial discrimination and racial stereotypes. Indeed, the differential impact of inferior black education is seen in many labor market differences between blacks and whites.

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[37] It is interesting to note that in New York, and elsewhere, gypsy cabs (illegal practitioners) flourish. But they operate in areas of the city where the legal cab companies refuse to operate because of the high crime rate (Spanish Harlem and Harlem). The authorities turn their faces to the practice. I would speculate that should the gypsy cab operate in the lower crime rate, more remunerative areas, legal companies would compel the authorities to curtail their operation.

[38] See Benjamin Shimberg et al., "Occupational Licensing: Practices and Policies" (Washington, D.C. Public Affairs Press, 1973). Licensing laws can be used to the detriment of minorities in other ways. It is interesting to note that during the 1930's an amendment requiring U.S. citizenship was added to most occupational licensure laws. This time period happened to coincide with the large migration of skilled Jews to the United States as a result of the hostilities in Europe. The reader is left to decide whether these were unrelated events.

[39] Op. cit., "The Impact of Government Manpower Programs," pp. 92-93.

TABLE 10.—EMPLOYMENT STATUS OF PERSONS 16 TO 24 YR OLD, BY SCHOOL ENROLLMENT STATUS, EDUCATIONAL ATTAINMENT, SEX AND RACE, OCTOBER 1974 AND 1975

[Numbers in thousands]

Characteristics	Civilian noninstitutional population		Civilian labor force									
			Number		Percent of population		Employed		Number		Percent of labor force	
	1974	1975	1974	1975	1974	1975	1974	1975	1974	1975	1974	1975
Total, 16 to 24 yr old	33,968	34,700	21,818	21,833	64.2	62.9	19,306	18,564	2,514	3,268	11.5	15.0
Enrolled in school	14,482	15,284	6,562	6,730	45.3	44.0	5,702	5,716	862	1,012	13.1	15.0
16 to 19 yr	10,666	11,163	4,434	4,551	41.6	40.8	3,750	3,772	684	778	15.4	17.1
20 to 24 yr	3,816	4,121	2,128	2,179	55.8	52.9	1,952	1,944	178	234	8.4	10.7
White	12,405	13,077	5,912	6,096	47.7	46.6	5,236	5,241	677	855	11.5	14.0
Black and other	2,077	2,207	651	633	31.3	28.7	469	478	182	156	28.0	24.6
Elementary and high school	7,862	8,063	3,311	3,279	42.1	40.6	2,759	2,641	552	636	16.7	19.4
White	6,549	6,710	2,972	2,997	45.4	44.7	2,538	2,450	434	546	14.6	18.2
Black and other	1,313	1,350	339	283	25.8	21.0	221	192	118	92	34.8	32.5
Not enrolled in school	19,486	19,416	15,256	15,103	78.2	77.8	13,604	12,848	1,652	2,256	10.8	14.9
High school grade, no college	10,350	10,366	8,371	8,379	80.9	80.8	7,553	7,238	818	1,141	9.8	13.6
White	9,078	9,124	7,354	7,417	81.0	81.3	6,717	6,508	637	909	8.7	12.3
Black and other	1,270	1,242	1,014	962	79.8	77.5	835	730	179	232	17.7	24.1
High school dropouts	4,847	4,824	3,108	2,969	64.1	61.5	2,514	2,219	594	750	19.1	25.3
16 to 19 yr	2,079	2,001	1,380	1,230	66.4	61.5	1,042	862	338	368	24.5	29.9
20 to 24 yr	2,769	2,822	1,728	1,740	62.4	61.7	1,472	1,358	256	382	14.8	22.0
White	3,866	3,742	2,525	2,382	65.3	63.7	2,115	1,840	410	542	16.2	22.8
Black and other	982	1,082	582	588	59.3	54.3	398	380	184	208	31.6	35.4
College graduates	1,452	1,373	1,339	1,290	92.2	94.0	1,272	1,183	67	107	5.0	8.3
White	1,313	1,275	1,219	1,208	92.8	94.7	1,167	1,107	52	101	4.3	8.4
Black and other	140	99	121	81	86.4	81.8	105	76	16	5	13.2	6.2
College, 1 to 3 yr	2,837	2,851	2,438	2,465	85.9	86.5	2,265	2,707	173	258	7.1	10.5
White	2,537	2,527	2,195	2,209	86.5	87.4	2,055	2,003	140	206	6.4	9.3
Black and other	300	324	244	256	81.3	79.0	210	204	34	52	13.9	20.3

Source: U.S. Department of Labor, Bureau of Labor Statistics, Summary Special Labor Force Report, March 1976

19

Effects of Past Manpower Policies

Public concern with poverty and unemployment during the relatively prosperous times of the 1960's led to the formulation of additional manpower policy. Much of this concern was expressed in the Manpower Development and Training Act of 1962 (MDTA). This act authorized the Department of Labor (DOL) and the Department of Health, Education and Welfare (HEW) to develop programs which would have the overall objectives of increasing the competitive position of the disadvantaged through: improving education and skills; raising the level of job market information; counseling and changing work attitudes. The Neighborhood Youth Corps (NYC) was established under the Economic Opportunity Act (EOA) of 1964. This program, targeted toward youths, provides training and employment for high school dropouts, part-time job-school programs, and summer employment opportunities. Both the MDTA and EOA acts, through the desire to decentralize and give states and local jurisdictions a greater role, have been superseded by the Comprehensive Employment and Training Act of 1973 (CETA). Since the original MDTA, a number of federally financed programs have been added to our manpower programs such as: Operation Mainstream, Public Service Careers, Special Impact Concentrated Employment Program, Job Opportunities in Business, Work Incentive Program, Job Corps, and Public Employment Program. As shown in table 11, the cumulative enrollment opportunities from 1967 through 1974 under the Federal manpower programs, were over 9 million, at a cost of over $14 billion.

There are many plausible objectives of U.S. manpower programs. However, in terms of stated program objectives, we must ask at least two general questions in determining their overall efficacy: (1) Have the programs enhanced the labor market competitiveness of those individuals participating in them, and (2) have the programs changed institutional labor market barriers faced by program participants and nonparticipants? Evaluative studies of U.S. manpower policy have produced mixed answers on results.[40] Some evidence suggests that some manpower training programs are little more than expensive income transfer (welfare) schemes. In fact an official government report recognized that "* * * a man may enroll in one of the training programs which pay stipends, in order to get funds to tide him over a lean period." [41]

Levitan and Taggert, III, in a study of the Neighborhood Youth Corporation reported: "A comprehensive follow-up of enrollees leaving the program between January and September 1966, found that 40 weeks after termination, less than two-fifths were employed (and) more than a fourth were not in the labor force." [42]

Granted the inherent problems in evaluating the cost-effectiveness of manpower training programs and granted the mixed findings of researchers, one undeniable fact remains. The segment of the population initially targeted for assistance through many manpower pro-

[40] See Charles Perry, Bernard E. Anderson, Richard L. Rowan, and Herbert R. Northrup, "The Impact of Government Manpower Programs" (Philadelphia: University of Pennsylvania, 1975).
[41] U.S. Department of Labor, "1970 Manpower Report of the President" (Washington, D.C.: U.S. Government Printing Office, 1970).
[42] Sar Levitan and Robert Taggert III, "Employment of Black Youth in Urban Ghettos" (New York Twentieth Century Fund, 1971), p. 101.

TABLE 11.—ENROLLMENT OPPORTUNITIES AND FEDERAL OBLIGATIONS FOR WORK AND TRAINING PROGRAMS ADMINISTERED BY THE DEPARTMENT OF LABOR THROUGH 1974 (FISCAL YEARS)

Program	Enrollment opportunities [1] (in thousands)								Federal obligation (in millions of dollars)							
	Total [2]	1967	1969	1970	1971	1972	1973	1974	Total [2]	1967	1969	1970	1971	1972	1973	1974
Total	9,140.8	808.5	910.7	1,011.3	1,149.6	1,562.3	927.4	439.3	14,367	796	1,030	1,419	1,485	2,697	2,153	2,143
Manpower Development and Training Act, total [3]	2,413.2	270.9	198.5	211.2	213.7	229.2	183.0	178.9	3,568	298	273	337	336	425	381	398
Institutional training	1,532.8	126.0	110.9	137.3	131.5	138.7	116.3	108.4	2,903	215	208	277	264	356	304	308
JOP–OJT [4]	880.4	144.5	77.8	64.0	69.2	90.5	66.7	70.5	665	83	59	50	60	69	77	91
Part time and other training	(5)	.4	9.8	9.9	13.0	(5)	(5)	(5)	(6)	(6)	6	10	12	(6)	(6)	(6)
Neighborhood Youth Corps, total [7]	5,396.8	512.8	539.7	600.0	698.9	863.0	661.3	177.3	3,721	349	321	357	426	517	417	662
In school	1,190.5	139.0	100.6	97.1	78.8	101.6	111.3	136.1	(8)	67	49	59	58	75	64	89
Out of school	562.3	79.5	51.9	45.4	40.1	41.6	38.7	41.2	(8)	148	124	98	115	122	107	114
Summer	3,644.0	294.3	387.2	457.5	580.0	719.8	511.3	----	(8)	133	148	199	253	320	246	459
Work training in industry	----	.2	1.9	----	----	----	----	----	(8)	(6)	1	----	----	----	(6)	(6)
Operation Mainstream [9]	163.9	8.0	13.5	17.8	23.3	22.3	32.3	35.8	490	24	41	51	72	85	81	115
Public Service Careers [9]	111.2	4.4	5.9	34.8	42.4	21.0	----	----	340	16	18	89	92	58	31	28
Special Impact	6.5	4.0	1.3	----	----	----	----	----	----	----	1	1	----	----	----	----
Concentrated employment program [9 10]	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	1,097	78	114	188	167	155	130	146
JOBS (Federal financed) [11]	361.1	8.4	52.8	60.1	88.2	60.6	33.1	26.4	848	24	161	149	169	118	73	64
Work incentive program [12]	384.8	----	99.0	65.7	60.7	149.5	----	----	886	----	101	79	64	175	209	250
Job Corps	110.6	----	----	21.7	22.4	24.0	17.7	20.9	875	----	----	170	160	202	193	150
Public employees program	192.7	----	----	----	----	192.7	----	----	2,482	----	----	----	----	962	1,239	281

[1] Enrollment opportunities are the number of positions authorized each fiscal year. The number shown by fiscal year includes only those newly authorized in that year, although actual enrollment opportunities from previous years, if not filled, may still be available.

[2] Cumulative—inception of program through 1974.

[3] Program became operational in 1963.

[4] Beginning fiscal 1971, includes the JOBS-optional program (JOBS) and the MDTA on-the-job (OJT) program which ended in fiscal 1970 except for national contracts. Also includes construction outreach.

[5] Beginning with fiscal year 1972, institutional training includes part time and other training.

[6] Less than $500,000.

[7] Program became operational in 1965.

[8] Data not available for Neighborhood Youth Corps components prior to fiscal year 1967.

[9] Program became operational in 1967, including the new careers program.

[10] Program became operational in 1968.

[11] Data not meaningful because an individual may be enrolled in 1 or more program components

[11] Job opportunities in the business sector. Program became operational in 1969.

[12] Program became operational in 1969.

Source: U.S. Department of Labor, Manpower Administration.

grams, such as the hard-core unemployed, teenagers, and minorities, are just as bad off (in some cases worse off) than they were at the inception of these programs. The deterioration that has taken place is obvious when we look at labor force participation rates for Negro male youth. Labor force participation for Negro youths in 1962 for those 16–17, 18–19, 20–24 were 40.2, 68.8, and 89.3 respectively while in 1974 the labor force participation rates had dropped to 34.6, 62.4 and 82.1 respectively. The unemployment rates for the same groups show the other part of the deterioration that has taken place. In 1962 Negro male youths 16–17, 18–19, 20–24, were unemployed at a rate of 30, 21, 15 percent respectively while in 1974 the unemployment rates respectively were 39, 27, and 16 percent. For the same period white male youth labor force participation in each age group rose and in each age group unemployment fell, except for the 16–17 age group which rose from 15.1 to 16.2.

Thus, in terms of impact on job market conditions and opportunities for specifically targeted disadvantaged youth, past and present manpower policy has not solved youth unemployment.

Public Service Employment (Emergency Employment Act of 1971)

Recently, public service employment has attracted the attention of many as the solution to unemployment. Some of the factors which have brought attention to the public sector are the relatively high wages, e.g., few public sector employees earn less than what are considered poverty wages, and the level of job stability in the public sector, e.g., total State and local government rate of turnover averages 19 percent compared to 60 percent in manufacturing. Additional sources of current appeal of public service employment as a manpower policy is the recognition of wide, unmet, public "needs" such as: basic community services, transportation services, educational services, health, recreational and cultural services, etc. Many argue that the present level of services in all these categories is inadequate to meet public needs and an expansion of these services would provide more jobs. Such a manpower policy which makes the Government the employer of last resort is often talked about in high places today.[43]

Several issues arise in connection to the public service employment concept. Proponents of public service employment as a manpower policy always point to the "need" for additional public services to improve societal welfare. Needs as a justification for federal expenditures can serve any purpose any time because it is inconceivable that human needs or wants for public services can ever be fully met. In other words, argument can always be made for more waterways, cleaner streets, increased medical care, etc. On the other hand, in the discussion of public service employment, very little attention is paid to "bread and butter" issues such as who should pay how much for these services? Neither is the question raised regarding the change from private spending to public spending as will surely be the case when government takes a larger share of worker earnings to finance increased provision of public services.

[43] See for example, Augustus F. Hawkins, "Equality of Sacrifice or Opportunity?" in "Public Service Employment: An Analysis of Its History, Problems and Prospects," ed. Alan Gartner et al. (New York: Praeger Publishers, 1973), p. 89.

Turning to another issue, will public service employment produce the results stated by its proponents? Will public service projects such as those suggested by the proponents have a significant impact on those segments of the labor force commonly referred to as disadvantaged? There is some doubt to this. One report concludes that no more than 30 percent of the first people hired under the Emergency Employment Act were poor.[44]

Another question that has not been answered satisfactorily is: If the absence of marketable skills is the reason that many of the disadvantaged unemployed are unable to compete for jobs in the private sector, is there any reason to expect that they will be able to perform adequately in the public sector? The answer to this question, as seen by proponents of public service employment as manpower policy, is revealed, in part, by the nature of the attack on current civil service hiring procedures. For example:

> Even if the premise of a positive average relationship between schooling and productivity *were* correct, this would not justify the practice of credentialism by *public* employers. The "stockholders" of government "firms" are the public itself—including those very individuals against whom the credentialing procedure discriminates. And in any case, governments are not supposed to be profit-maximizing employers.[45]

In other words, many proponents of public service employment as a manpower policy argue for either a reduction in job requirements or an abolition of job requirements altogether.

Testing and Credentialism

Griggs v. *Duke Power Co.*,[46] has become the major judicial precedent against the use of unvalidated examinations and educational credentials. While I will not take a position as extreme as the authors of the last quote, there is acknowledgement that in many cases certain employee selection instruments bear a small relationship between what is necessary to get hired and the actual skills necessary for satisfactory performance of a job. However, testing and credentialism are important in several ways to the operation of the labor market.

Despite what was said about credentialism, there is a positive relationship between schooling and productivity. Social scientists may have technical difficulties in specifying the precise relationship because it is one of great complexity—but there is no social scientist known to this writer who would argue that there is a negative or neutral relationship. And there is no effort to abolish our educational system, as surely should be the case if schools did not make a difference.

Another aspect usually lost when people note the increasing amount of credentialism is that increased credentialism *could* be the cost of some other social action. That which most readily comes to mind are the more recent laws and court decisions concerning worker job tenure or job rights. In short, today it is much more difficult for an employer to

[44] Sheppard, Harrison and Spring, "The Political Economy of Public Service Employment" (Boston: D. C. Heath, 1972), p. 145.

[45] Ibid., p. 202.

[46] In *Griggs* v. *Duke Power Co.* (401 U.S. 424, 91 S. Ct. 849, 28 L. Ed. 2d. 158) the court held that job qualifications and aptitude tests were racially discriminatory even if they were equally applied. They were discriminatory and unlawful if they were not related to job performance and if they created a statistical racial imbalance or perpetuated the effects of past discrimination.

fire an employee whose performance is unsatisfactory. Regardless of whether one takes a moral position for or against these new worker rights, employers have a predictable response to them. Namely, since the cost of dismissing a "wrong" employee is higher, employers can be expected to take increased measures to reduce the probability of hiring the "wrong" employee. Educational credentials and written examinations, albeit imperfect, can constitute such a screening device.

Increased credentialism probably also reflects a general failure of the public education system in some areas. Employers probably consider reading and writing proficiency as an important worker attribute. In far too many cases, the possession of a high school diploma is no guarantee of the ability to read, write, or even complete an employment application. Given the reduced creditability of traditional credentials, many employers have incentive to use additional screening devices.

One policy suggestion offered to Congress as a measure to offset the effects of credentialism and testing (and to be incorporated into public service employment manpower policy) is the following:

> * * * To the extent that there is past or present discrimination in the education system, moreover, such "credentialism" discriminates against certain groups in the society. Therefore, the use of educational credentials and written test scores as employee selection instruments should be eliminated. Probably the only truly "fair" procedure would be to hire on a "first-through-the-door" or "random selection" basis, followed by an intensive probation period with supervisors' evaluations and other performance criteria determining whether the worker would be promoted to "permanent" status.[47]

This recommendation would not be worthy of comment were it not for the currency it and similar recommendations are receiving. It completely ignores the fact that there are costs associated with the hiring and training process. As such firms have incentive to reduce these costs by increasing, through screening techniques, the likelihood of selecting a successful job candidate. Employees may intentionally or unintentionally misrepresent themselves. There are costs associated with misrepresentations and employers thus have incentive to reduce these costs.

Qualifications and Employability

A basic misunderstanding of economics is reflected when people argue that the high rate of unemployment experienced by youth and minority workers is caused by their lack of qualifications relative to other members of the labor force. This is not true. Having low skills relative to other members of the labor force can explain low wages but not unemployment. A better answer is that unemployment reflects that low skilled people may prefer to remain unemployed than to accept a wage commensurate with their low productivity; or they are prevented, by law or some other means, from accepting a wage commensurate with their lower productivity.

In most discussion of skills or worker qualifications, qualifications are viewed as an absolute. Often worker qualifications are used as standards for union membership, job assignment, etc. Worker qualification, though superficially appearing fair or objective, is no talisman

[47] Ibid., p. 203. Prof. Ivar Berg, the author of this statement was also the author of evidence considered by the court in *Griggs* v. *Duke*.

as many people believe. No worker is qualified or unqualified in an absolute sense. Qualified or unqualified can only have meaning in a relative sense—relative to a wage. For example, a particular electrician may be qualified at a wage of $4.00 per hour and that same electrician be unqualified and "unemployable" at a wage of $8.00 per hour. It should be obvious to the reader that if an organization of electricians, through political activity, can require employers to pay a minimum hourly wage of $8.00 they have artificially disqualified and made unemployable the electrician who was formerly qualified and employable at a lower wage. On the other hand, the organization of electricians have improved their market position through the elimination of a competitive substitute—low skilled electricians. In other words, if the employer must pay $8.00 per hour, it pays him to hire the most skilled. The point being made in this paragraph is that at a sufficiently high enough wage *anyone* is unqualified and unemployable.

A concrete example of our discussion here is piece work rates. Years ago piece work rates were a common form of remuneration for work. While in no sense taking a moral position for or against this type of remuneration, the working of this institution highlights our discussion. The essential feature that concerns us is that the worker was paid according to his output. If the rate was 20 cents per unit a worker whose output was 100 units per day would earn more than a worker who could produce only 20 units per day. The former worker would earn $20.00 per day while the latter would earn $4.00 per day. The clear benefit of the system was that (*a*) the low skilled worker could be employed, and (*b*) he would get on-the-job-training (through doing and watching) that would increase the probability of his eventually increasing both his productivity and wages.

What would be the effect of abolishing the piece work rate and imposing an $18.00 per day minimum salary? One effect would be that the employer would not hire anyone who could not produce 90 units per day. This is tantamount to decreeing that if one could not produce 90 units per day he is not deserving of employment. Another effect is that such a step denies the low skilled person one of the most effective forms of skills acquisition; namely, on-the-job training. Yet another effect is that it disqualifies and causes to be unemployable the worker that was previously employed.

Policy Recommendations

Full employment, in general, requires a robust economy with a high level of aggregate demand. However, for some segments of the labor force such a prescription is insufficient. Statistical data presented in this study have shown that the two-to-one black/white unemployment ratio and the three-to-one teenage/adult unemployment ratio is not very responsive to aggregate demand. Therefore, monetary and fiscal policy designed to stimulate the general economy is apt to produce disappointing results in the teenage labor force and some segments of the minority labor force.

Measures to ameliorate youth and minority unemployment problems require different tools. The nature of these tools are indicated by the identification of the causes of teenage and minority unemployment. Quite simply put, involuntary unemployment is the result

of either (or the combination) of two factors:[48] (1) The individual has no service to offer which the market values, or (2) the individual does have a service to offer which the market values, but somehow he is restricted in the selling of that service. The first cause of unemployment can be subsumed under supply type characteristics of the individual frequently referred to as human capital.[49] The way to reduce unemployment (expand employment opportunities) caused by low-valued human capital is to provide people with more highly valued skills through training and education. The second source of unemployment, market entry restrictions, is reduced by changes in the institutional characteristics of the labor market. My policy recommendations will focus on these two related aspects of the labor market.

Education

A large part of the problem that youth, particularly minority youth, face in their transition from school to work is that they have received relatively poor schooling. Census data reveals that there has been a remarkable closing of the educational gap, measured in median years of education between blacks and whites. In fact the difference is negligible with median years of schooling for blacks being 12.2 years and that of whites 12.5 years. However, census data is misleading if one is attempting to measure the academic achievement of blacks vis-a-vis whites because the possession of a high school diploma is not necessarily synonymous with the ability to read, write and perform simple numerical calculations. The most comprehensive study of black/white differences in academic achievement was the Coleman report.[50] It reports that blacks, on the average, at grade 12 lag behind whites 3 to 5 years. More recent studies indicate that this gap has not been narrowed significantly.[51]

These findings indicate that a comprehensive policy to raise the level of marketable skills of blacks must also include efforts to improve the quality of education that blacks receive in their primary and secondary schooling. A good start in this direction is to give more serious attention to the often proposed voucher system which promises to build accountability into the educational system.[52]

Training

Effective career training can improve the skill level for many minority and young people, but as Willard Wirtz put it, "While the case for change is in the minds and hopes of scattered millions, the

[48] Even though the term "involuntary unemployment" is used by economists and noneconomists alike, it is a term that is misleading and ambiguous in common usage. Suppose an unemployed electrician were offered employment at a wage of $2.50 per hour and refused the offer, would we call his continued unemployment voluntary or involuntary? Obviously, he would be voluntarily unemployed since he made the decision not to work. He would rather search for better offers than accept such a low wage.

[49] Human capital, generally defined, is that set of marketable assets (talents and skills) that produces a stream of income over a lifetime. It has nothing to do with the intrinsic worth and rights of individuals.

[50] James S. Coleman et al., "Equality of Educational Opportunity" (Washington, D.C.: U.S. Office of Education, 1966), pp. 274-296.

[51] Grace C. Massey, M. Scott, S. Dornbush, "Racism Without Racists: Institutional Racism in Urban Schools," The Black Scholar, Vol. 7, No. 3 (November 1975); Finis Welch, "Labor-Market Discrimination: An Interpretation of Income Differences in the Rural South," Journal of Political Economy (June, 1967), pp. 225-240; Finis Welch, "Black-White Differences in Returns to Schooling," Rand Corporation Working Paper, 1972; Thomas Sowell, "Black Education: Myths and Tragedies" (New York: David McKay Co., Inc., 1972), especially chapter 9.

[52] See Milton Friedman, "Capitalism and Freedom" (Chicago: University of Chicago Press, 1962), pp. 85-107, for an explanation of the voucher system.

case for things as they are is in the hands of two or three strongly entrenched bureaucracies." [53] Licensing and credentialism stands in the way of labor market reform and impedes the flow of new labor into primary labor markets. Many times licensing serves no valuable social function but merely represents the vested interests of incumbent practitioners.[54] Therefore, comprehensive manpower policy aimed at improving job opportunities must look at effective ways of training. One way of producing effective training is through on-the-job training. Opportunities for on-the-job training are restricted by licensing laws and out-dated child labor laws.

Reduction of Restrictive Practices in the Labor Market

The major thrust of this study is that market restrictions exacerbate employment problems of youth and minority workers. As I have said earlier, the fact that the 2:1 black/white unemployment ratio, and the 3:1 teenage/adult unemployment ratio are not very responsive to high aggregate demand shows that improved performance of the national economy is not a sufficient prescription. The reduction and elimination of these ratios will require changes in the structure of the labor market. This means that revision in the institutional structure of the labor market must be the primary emphasis of Federal policy to reduce unemployment among the youths and minorities in this country.

The focus of these changes should be to promote voluntary and free exchange between workers and employers in a manner consistent with our democratic values. Such a change should include a reduction in the influence held by powerful interest groups over labor legislation and labor policy in the United States. More specifically, I recommend the following changes in labor law:

1. Abolition of Federal and State minimum wage laws. Failing this, there should be amendments in both Federal and all State laws to provide for a substantial wage differential for persons under the age of 21.[55]

2. Revision of child labor laws and a reduction in the school leaving age. This will allow many youth, to whom school is nothing more than a day care center, to begin their careers, gain maturity and perhaps at a later time continue their education.

3. Radical modification of the National Labor Relations Act and its subsequent amendments to allow for the possibility (in practice) of independent work contract negotiation between the individual worker and employer.[56] This recommendation in no way should be interpreted as being against voluntary associations (such as labor unions). In fact this recommendation serves to reinforce the right of voluntary association.

4. Reevaluation of current licensing and certification requirements are necessary not only to promote opportunities for on-the-job training but to improve market opportunities for individuals

[53] Willard Wirtz, "A New American Prospect," unpublished draft (Washington, D.C.: The Manpower Institute, May 24, 1974).

[54] Marcia Freeman, "Good Jobs, Bad Jobs: The Search for Shelters" (New York: Columbia University, Conservation of Human Resources, June 1974).

[55] It is interesting to note, though never proposed (and this writer does not propose), that carefully manipulated Federal maximum wage laws would have the opposite effect of minimum wage laws on marginal workers. It would discriminate in their favor.

[56] Many contracts are written as union shop contracts to comply with the Taft-Hartley Act, but are in effect closed shop contracts.

who already possess requisite skills. There are many areas of employment and/or business that are licensed solely for the purposes of entry restriction in order to protect the incumbent practitioners from increased competition. These should be abolished.

These policy recommendations are no doubt radical and will touch on the sensitivities and nerves of many vested interest groups. They do so because, if implemented, sharing in the Nation's resources would depend less on political power and affiliation and more on individual initiative and ambition. However, these are changes that are necessary to make the dream of equality of opportunity a reality for all Americans.

Appendix Tables

TABLE 1.—COMPARISON OF TEENAGE AND GENERAL UNEMPLOYMENT RATES (AVERAGES OF MONTHLY SEASONALLY ADJUSTED DATA)

	Unemployment rates (percent)		Ratio teenage/general	Minimum wage
	Ages 16–19	General		
February 1949–January 1950	13.9	6.2	2.2	$0.40
February 1950–January 1951	11.6	5.0	2.3	.75
March 1955–February 1956	11.0	4.2	2.6	.75
March 1956–February 1957	11.0	4.1	2.7	1.00
September 1960–August 1961	16.4	6.6	2.5	1.00
September 1961–August 1962	15.4	5.8	2.7	[1] 1.15 (1.00)
September 1962–August 1963	16.4	5.6	2.9	1.15 (1.00)
September 1963–August 1964	16.6	5.4	3.1	1.25 (1.00)
September 1964–August 1965	15.6	4.8	3.3	(1.15)
September 1965–August 1966	13.2	3.8	3.5	(1.25)
February 1966–January 1967	12.6	3.8	3.3	1.25
February 1967–January 1968 [2]	12.9	3.8	3.4	1.40 (1.00)
February 1968–December 1968	12.7	3.6	3.6	1.60 (1.15)

[1] Minimum wage figure in parenthesis is for jobs not currently covered prior to September 1961 and February 1967.
[2] Not comparable with earlier data because of the exclusion from the unemployment count of those seeking future jobs and not currently available for work.

Source: Yale Brozen, "The Effect of Statutory Minimum Wage Increases on Teenage Unemployment," Journal of Law and Economics (April 1969), p. 116.

TABLE 2.—COMPARISON OF TEENAGE UNEMPLOYMENT RATES, NONWHITE AND WHITE (BOTH SEXES, 16–19)

	Teenage Unemployment rates (percent)		Ratio, nonwhite/white
	Nonwhite	White	
February 1949 to January 1950	17.4	13.4	1.3
February 1950 to January 1951	14.8	11.2	1.3
March 1955 to February 1956	15.8	10.2	1.5
March 1956 to February 1957	18.1	10.0	1.8
September 1960 to August 1961	27.4	15.0	1.8
September 1961 to August 1962	25.3	13.9	1.8
September 1962 to August 1963	29.2	14.9	2.0
September 1963 to August 1964	28.4	15.0	1.9
September 1964 to August 1965	26.1	14.2	1.8
September 1965 to August 1966	26.5	11.9	2.3
February 1966 to January 1967	25.1	11.1	2.3
February 1967 to January 1968 [1]	26.3	11.0	2.4
February 1968 to December 1968	25.4	11.0	2.3

[1] Not comparable with earlier data because of the exclusion from the unemployment count of those seeking future jobs and not currently available for work.

Source: Yale Brozen, "The Effect of Statutory Minimum Wage Increases on Teenage Unemployment, "The Journal of Law and Economics (April 1969), p. 118.

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Senator JAVITS. Dr. Williams, I have to go and answer a call.

Are you going to follow your written statement?

Dr. WILLIAMS. Approximately, yes.

Senator JAVITS. OK. I will be right back.

Dr. WILLIAMS. High youth unemployment has effects which are undesirable from both an individual and social point of view. Quite naturally, at least two questions arise:

One, why are youths, particularly minority youths, so disproportionately represented among the unemployed; and two, what should Government policy be with respect to the matter?

The first question is one of cause and effect. Economic theory can readily approach this kind of question. On the other hand, what Government should do about teenage unemployment opens up the potential for unending debate. This is because no theory, including economic theory, can answer questions that are essentially normative. That is, while economic theory can say who bears the burden of what policy, it cannot in any moral sense justify a policy or its distribution of burden and benefits. Therefore, what follows is the analysis of the factors that cause the high rate of youth and minority unemployment.

The Congress of the United States has the power to legislate increases in the minimum wage at which a labor transaction can be made, it has not chosen to legislate that the transaction actually be made. To the extent that the minimum wage law raises the pay level to that which may exceed some workers' productivity, employers will make adjustments in their use of labor. Such an adjustment will produce gains for some workers at the expense of other workers. Those workers who retain their jobs and receive a higher wage clearly gain.

The most adverse unemployment effects fall upon those workers who are most disadvantaged in terms of marketable skills, who lose their jobs and income. This effect is more clearly seen if we put ourselves in the place of an employer and ask, if a wage of $2.65 per hour must be paid no matter who is hired, who does it pay the firm to hire?

Clearly, the answer in terms of economic efficiency is to hire the worker whose productivity is the closest to $2.65 per hour. If such workers are available, it clearly does not pay the firm to hire those whose output is, say, $1.50 per hour.

Even if the employer were willing to train such a worker, the fact that the worker must be paid more than his output is worth, plus training costs incurred, makes on-the-job training an unattractive economic proposition.

The impact of legislated minimum wages can be brought into sharper focus if we ask the distributional question, who bears the burden of legislated minimum?

As I said earlier, workers who are most disadvantaged by minimum wage legislation are those that are the most marginal. These are workers who employers perceive as being less productive or more costly to hire in some sense than other workers.

In the U.S. labor force, there are at least two segments that share the marginal worker characteristic to a greater extent than do other segments of the labor force. The first group consists of youths in general. They are relatively low skilled because of their age, immaturity and lack of experience. The second group are some racial mi-

norities, particularly the youth, who not only share the handicaps of youths in general but are further burdened by unusually poor schooling, racial discrimination, and other socioeconomic factors leading to lower skill levels. While low skills can explain low wages, low skills cannot explain unemployment absent some kind of market interference.

It is no accident that teenagers, particularly minority teenagers, are disproportionately represented among unemployment statistics as shown in tables 1 and 2.

There are a number of other studies that have evaluated the impact of legislated minimum wages on unemployment. The conclusions of some representative studies are cited here, in my statement.

So far my discussion has focused mainly on youth unemployment in general.

Now, I want to make some comparisons between black youth unemployment and white youth unemployment. Table 2 shows male black/white unemployment statistics by age groups over the past several decades.

While most people are knowledgeable of the current deteriorated market position of black youngsters relative to white youngsters, not many are aware of black/white youth employment statistics for earlier periods in our history.

The most striking feature of table 2 is that in 1948 black youth unemployment was roughly the same as white youth unemployment. Only among black youths, 20–24, was the unemployment rate significantly higher. However, for black youths, age 16–17, their unemployment rate was less than that of white youth—9.4 percent unemployment compared to 10.2 percent of white youths unemployed.

Now, and for the last decade, black youths, age 16–17, have suffered an unemployment rate considerably more than twice that of white youth. In fact, for every age group among youths, black youth unemployment is more than twice that of white youths. The statistics cited here understate the true nature of the problem by a wide margin. The reason is that they are national statistics and do not reflect the fact that much youth unemployment is concentrated in our major metropolitan areas.

Black youth unemployment in some of those areas has been estimated to be as high as 60 percent.

Another part of this dismal picture is the labor force participation rate among black youth compared to white youth. Table 3 shows this comparison. In earlier periods, black labor force participation rates for all age groups exceeded that of whites. In fact, historically, black labor force participation has always exceeded that of whites. That is, in 1910, 71 percent of blacks over 9 years of age were employed compared to 51 percent for whites. As a matter of fact, the statistics answer the troublesome question that was raised during the time of our Civil War, and that was will blacks work if they are free?

Now, it seems like the data indicates that a more important question should have been asked, will whites work?

Another part of this, for black youth, age 16 through 17, their labor force participation rate is now slightly over one-half that of white youths. Black youths, 18–19, the labor force participation rate is now three-quarters that of white youths, 18–19. Black youths, 20–24, now

have a labor force participation rate 90 percent of white youths, 20–24. Not only are the labor force participation rates of black youth less than white youths, but they are falling year by year.

Faced with these facts, one naturally asks why have labor market opportunities deteriorated so precipitously for black youths relative to white youths? Can racial discrimination explain this kind of reversal? Probably not.

It would be very difficult for anyone to sustain an argument which held that business and society have become more racially discriminatory than they were in the past. The answer lies elsewhere as has already been suggested—the minimum wage law.

Earlier I said that economic theory predicts that when a wage is legislated that exceeds worker productivity, firms will have inducement to make adjustments in its use of labor. Though not intended, this adjustment which firms can rationally be expected to make has racial effects. That is, one type of adjustment is to hire not only fewer youths, relative to other inputs, but seek among those youths hired the ones with higher qualifications.

As it turns out for a host of socioeconomic reasons, with which we are all familiar, white youths, more often than black youths, have better educational backgrounds. Therefore, as reflected in the unemployment statistics, increases in the minimum wage law can be expected to impose a greater unemployment burden on black youths than on white youths.

Observations, such as those that I have cited, are those which prompted Milton Friedman, our economist Nobel Prize winner, to say that the minimum wage law is the most antiblack law on the books in the United States.

Now, many support the minimum wage out of moral convictions and good intentions. These people should know that white racist unions in South Africa also support the minimum wage law and equal pay-for-equal-work law. Their stated intention is that of getting blacks out of the contruction industry. That is, job segregation laws have failed. And they would like to use the economic system to get blacks out of the construction industry. That is, if firms have to pay the same wage for a black as a white in South Africa, it lowers the cost of racial discrimination.

It is very interesting to note that in the United States craft unions or unions in general are the major lobbiers for the minimum-wage law and increases in the minimum-wage law. And one wonders why they find it in their interest to lobby for an increase in the minimum-wage law.

While craft unions and unions in general in the United States may not have the same intention as those in South Africa, we must keep in mind that the effects of behavior do not depend on intentions. That is, if I fell off the Empire State Building, it does not make any difference whether I was pushed or whether I jumped. I will fall at 32 feet per second squared, independent of any intentions.

The CHAIRMAN. That is true except in busing. In other words, motivation is the quest. It is not the effect but the motivation.

That is just an extraneous thought.

Dr. WILLIAMS. Well, I am concerned about policy. And in terms of making policy, I care about the effects of making policy as opposed

to the intention of the policy. Because I believe if we go around the world and look at the most heinous crimes in the history of man, they have been done in the name of good intentions. That is, the Crusades in the Middle East were to save the infidels. The war with Hitler, Hitler justified his behavior in terms of creating a pure race.

Now, one recognizes, or at least economic theory recognizes that low-skilled labor is substituted for high-skilled labor. Now, if high-skilled labor can price the competition out of the market, they can demand higher wages.

Now, while this may not be the intent of the labor organizations in the United States, but again the effect does not depend on the intent.

The proposed 1977 amendments to raise the minimum-wage law and index it to the average wage of production workers in manufacturing will have serious unemployment consequences for youth. The rise in the minimum wage will raise youth unemployment.

Gramlich has recently argued that a 25-percent increase in the minimum wage would lower the employment of low-wage youth by 10 to 15 percent. This calculation implies that a rise in the minimum wage from $2.30 to $2.85 per hour will decrease low-wage youth employment by 9.6 percent to 14.4 percent.

Indexing the minimum wage will reinforce the unemployment effects of the rise in the minimum wage. Inflation has the effect of lowering the effective minimum wage. That is, inflation lowers the real wage, that is, the money wage deflated by the price index.

Therefore, if inflation can be said to have any beneficiary effects, it is that inflation erodes the legislated minimum wage and hence mitigates some of its adverse impact on youth. Indexing the minimum wage to the average wage in manufacturing will eliminate this effect and hence exacerbate youth unemployment.

One hope against the predicted large increase in youth unemployment, should the proposed amendment pass, is the inclusion of a significant youth differential. If Congress wants to reduce the expected unemployment effects of the proposed amendment, firms should be permitted to hire youths at rates considerably less than the adult rate.

Now, many argue that this would cause unemployment among adults. Now, many economists—most economists, I should say, around the United States would recognize this as the lump of labor fallacy. That is, that there are only so many jobs to go around, and if you give one person a job, you, of necessity, take a job away from someone else.

And also the mere fact that proponents of the minimum wage law, or proponents of this argument suggest this lump of labor fallacy, it reveals their belief that lower wages would increase unemployment—would increase the employment among teenagers, I mean.

Now, should the proposal pass as it is now the likely result, is a mixture of the two following outcomes. Taxpayers are going to be called upon to tax themselves to support massive Federal programs to provide income for the Nation's disadvantaged who will not be employed by the private sector. The more tragic alternative is that millions of youths will become discouraged and permanently drop out of the labor force.

In conclusion, my testimony at these hearings could include many other Federal regulations and laws that make it almost impossible for present disadvantaged minorities to enter the mainstream of

American society as have earlier disadvantaged minorities, as other disadvantaged minorities have in the past. And some of those claims are the Davis-Bacon Act and licensing.

In fact, for your information, if you go through the Congressional Record, Davis-Bacon was suggested as one of the ways to prevent minorities—or rather they use the word "colored people"—from competing with white labor in the construction industry. And they were right.

The point that I wish to make in the strongest fashion possible is that many laws, although well-intentioned, spell disaster for a large segment of black, Hispanic, and other disadvantaged minority groups. The most tragic element of this is that society will come to view the difficulty that these groups have in fully entering the mainstream of American society—in spite of the billions of dollars spent, in spite of civil rights legislation, in spite of thousands of civil rights litigation cases—as group incompetence and, as such, the most racist elements of society will have their prophecies realized.

Hardly anyone acknowledges that many, if not most, of the problems encountered are neither due to group nor individual incompetence but due to the excesses of Government influenced by politically powerful interest groups. Many of these groups in the pursuit of their objectives contribute to the enactment of laws which spell disaster for disadvantaged Americans.

Thank you very much, gentlemen.

[The prepared statement of Dr. Williams follows:]

Statement of Professor Walter E. Williams on Senate Bill No. 1871 before the Senate Human Resources Subcommittee on Labor.

August 3, 1977

Restrictions on Economic Opportunities for Youths and Minorities

by

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Restrictions on Economic Opportunities for Youth and Minorities

Walter E. Williams, Associate Professor of Economics, Temple University

Persistently high rates of unemployment in several segments of the United States labor force is one of the most difficult unresolved economic problems of the post World War II era. The segments of the labor force that produce the most seemingly intractable problem are its youth and minority. Youths, particularly minority youths, face high rate of unemployment even when there are relatively prosperous times and when the adult segment of the labor experiences a relatively low rate of unemployment. This evidence shows that governmental efforts to reduce unemployment through vigorous monetary and fiscal policy produces disappointing results for the youth segment of the labor force. Furthermore, there is not much hope that future monetary and fiscal policy will substantially change the situation over what it has been for well over a decade. What is needed are institutional changes which will free markets, and hence employment opportunities, for the relatively disadvantaged worker.

High youth unemployment would not be such a critical problem if youth employment was considered only as a means to supplement family income or earn spending change. The absence or presence of early work experiences have effects which may spell the difference between a successful or unsuccessful future work career. Early work experiences, even in the most menial of tasks, aids the individual in the acquisition of skills and attitudes that will make him a more valuable employee in the future.[1] Early work experiences (1) teach individuals effective job

[1]Many argue that "deadend" jobs deny the individual career-related skills. However, many of the skills absent among many of our youth and hard-core unemployed can be obtained in any job. Furthermore to assign certain jobs as deadend is unfortunate because it creates false and unrealistic labor market expectations among our youth.

search techniques; (2) teach effective work habits such as promptness, respect for superiors and other work habits; (3) provides self respect and confidence that comes from being financially independent or semi-independent; (4) provide the valuable opportunity to make mistakes at a time when mistakes are not likely to be as costly as they would be when the worker has dependents counting on him for a continuous source of income. The absence of early work experiences not only deny youths the acquisition of these skills, but may also act as disincentives to the continuation of their formal training. Moreover, the absence of job opportunities is likely to contribute to many kinds of anti-social behavior.

High youth unemployment has effects which are undesirable from both an individual and social point of view. Quite naturally, at least two questions arise: (1)Why are youths, particularly minority youths, so disproportionately represented among the unemployed and (2) what should government policy be with respect to the matter? The first question is one of cause and effect. Economic theory can readily approch this kind of question. On the other hand, what government should do about teenage unemployment opens up the potential for unending debate. This is because no theory, including economic theory, can answer questions that are essentially normative. That is, while economic theory can say who bears the burden of what policy, it cannot in any moral sense justify a policy or its distribution of burden and benefits. Therefore, what follows is the analysis of the factors that cause the high rate of youth and minority unemployment.

Minimum Wage Laws

The Congress of the United States has the power to legislate increases

in the minimum wage at which a labor transaction can occur. However, the Congress, and for that matter no one else, can legislate an increase in worker productivity. Moreover, though the Congress can legislate the minimum wage at which a labor transaction can be made, it has not chosen to legislate that the transaction actually be made. To the extent that the minimum wage law raises the pay level to that which may exceed some workers' productivity, employers will make adjustments in their use of labor. Such an adjustment will produce gains for some workers at the expense of other workers. Those workers who retain their jobs and receive a higher wage clearly gain. The most adverse unemployment effects fall upon those workers who are most disadvantaged in terms of marketable skills, who lose their jobs and income. This effect is more clearly seen if we put ourselves in the place of an employer and ask: If a wage of $2.65 per hour must be paid no matter who is hired, who does it pay the firm to hire? Clearly the answer in terms of economic efficiency is to hire the worker whose productivity is the closest to $2.65 per hour.[2] If such workers are available, it clearly does not pay the firm to hire those whose output is, say, $1.50 per hour. Even if the employer were willing to train such a worker, the fact that the worker must be paid more than his output is worth, plus training costs incurred, makes on-the-job-training an unattractive proposition.

The impact of legislated minimum wages can be brought into sharper focus if we ask the distributional question: Who bears the burden of legislated minima? As I said earlier, workers who are most disadvantaged by minimum wage legislation are those that are the most marginal. These are workers who employers perceive as being less productive or more

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[2]Actually the compensation that employers have to pay is higher to the extent that Social Security and fringe benefits are paid.

costly to hire in some sense than other workers. In the U.S. labor force there are at least two segments that share the marginal worker characteristic to a greater extent than do other segments of the labor force. The first group consists of youths in general. They are relatively low skilled because of their age, immaturity and lack of experience. The second group are some racial minorities, particularly the youth, who not only share the handicaps of youths in general but are further burdened by unusually poor schooling, racial discrimination and other socio-economic factors leading to lower skill levels. While low skills can explain low wages, low skills cannot explain unemployment absent some kind of market interference. It is no accident that teenagers, particularly minority teenagers, are disproportionately represented among unemployment statistics as shown in Tables 1 and 2.

Table 1 shows that for most of the years with an increase in the minimum wage law there was an associated increase in teenage unemployment relative to adult unemployment. Arthur F. Burns, in a study of the impact of legislated minimum wages, said:

> During the postwar period the ratio of unemployment rate of teenagers to that of male adults was invariably higher during the 6 months following an increase of the minimum wage than it was in the preceding half year. The ratio of femal adults to that of male adults has behaved similarly. Of course, the employment of teenagers and women depends on a variety of other factors - certainly on business conditions as well as on minimum wage. I have tried to allow for this in a more refined analysis. It appears whether we consider the unemployment rates of teenagers or that of women, that its primary determinants are, first, the general state of the economy as indicated by the unemployment rate of adult males, second, the ratio of the minimum wage to the average in manufacturing. The influence of the wage ratio turns out to be particularly strong in the case of nonwhite teenagers.[3]

[3]Arthur F. Burns, "The Management of Prosperity," (New York: Columbia University press, 1966), pp.47-48.

Table 1. Comparison of Teenage and General Unemployment Rates

Year	(1) Unemployment Rates Both Sexes General	(2) 16-19	(3) Ratio Teenage / General
1948	3.8	9.2	2.42
1949	5.9	13.4	2.27
1950	5.3	12.2	2.30*
1951	3.3	8.2	2.48
1952	3.0	8.5	2.83
1953	2.9	7.6	2.62
1954	5.5	12.6	2.29
1955	4.4	11.0	2.50
1956	4.1	11.1	2.70*
1957	4.3	11.6	2.70
1958	6.8	15.9	2.34
1959	5.5	14.6	2.65
1960	5.5	14.7	2.67
1961	6.7	16.8	2.50*
1962	5.5	14.7	2.67
1963	5.7	17.2	3.02*
1964	5.2	16.2	3.12
1965	4.5	14.8	3.28
1966	3.8	12.8	3.37
1967	3.8	12.9	3.39*
1968	3.6	12.7	3.53*
1969	3.5	12.2	3.49
1970	4.9	15.2	3.10
1971	6.9	16.9	2.86
1972	5.6	16.2	2.89
1973	4.9	14.5	2.96*
1974	5.6	16.0	2.86 *
1975	8.1	21.9	2.68 *
1976	7.8	19.0	2.66*

Source: U.S. Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics 1975--Reference Edition, p. 145.

*Asterisk shows the year that the Federal minimum wage was increased.

A number of other studies have evaluated the impact of legislated minimum wages on unemployment. The conclusions of some representative studies are cited here.

David E. Kaun[4] using census data found that statutory wage minimums caused plant closures and the replacement of labor by other productive inputs. Also the most adverse effects of statutory minimums were concentrated among minorities, teenagers and females.

Yale Brozen[5] in two studies discusses the impact of the minimum wage law. First he shows that the rate of teenage unemployment relative to that of the general population rose and the ratio of nonwhite to white teenage unemployment rose following increases in the federal statutory minimum. In another study he concluded that workers adversely affected by the statutory minimum crowded into uncovered areas, such as domestic housework, increasing employment and depressing wages in the uncovered areas.

Kosters and Welch[6] conclude that the minimum wage law has had the effect of reducing job opportunities for teenagers during periods of normal employment growth and making their jobs less secure in short-term changes in the business cycle. They go on to conclude that a disproportionate share of the cyclical vunerability is borne by nonwhite teenagers and the primary beneficiaries of shifts in employment patterns are white adult males.

Edward Gramlich[7] argues that a 25 percent increase in the minimum wage law lowers the employment of low wage earners by 10 to 15 percent. Furthermore, Gramlich finds a defect of other studies causing them to understate the true effects of the minimum wage law. Gramlich presents evidence that shows that a rise in the minimum causes a shift toward more part-time

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4David E. Kaun, "Minimum Wages, Factor Substitution, and the Marginal Producer," Quarterly Journal of Economics (August, 1965), pp. 478-486.

5Yale Brozen, "The Effect of Statutory Minimum Wages on Teenage Unemployment," Journal of Law and Economics (April, 1969), pp. 109-122; Yale Brozen, "Minimum Wage Rates and Household Workers," Journal of Law and Economics (October, 1962), pp. 103-109.

employment away from full-time employment. This loss in hours worked does not show up in many studies because they do not distinguish between an individual employed full-time and one employed part-time. Thus, the reduction in hours worked may be greater than the fall in employment alone suggests.

Jacob Mincer[8] reports the adverse effects of the minimum wage on youths and minorities:

> The net minimum wage effects on labor force participation appear to be negative for most of the groups. The largest negative effects are observed for nonwhite teenagers, followed by nonwhite males (20-24), white males (20-24), white teenagers, and nonwhite males (25-64).
>
> The net employment effects are negative with the exception of nonwhite females (20+0), for whom the positive coefficient is statistically insignificant. The largest disemployment effects are observed for nonwhite teenagers, followed by nonwhite males (20-24), white teenagers, and white males (20-24).

The weight of academic research by economists is that unemployment for some population groups is directly related to statutory wage minima.[9]

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[6]Marvin Kosters and Finis Welch, "The Effects of Minimum Wages on the Disribution of Changes in Aggregate Employment," American Economic Review (June, 1972), pp. 323-332.

[7]Edward M. Gramlich, "Impact of Minimum Wages on Other Wages, Employment and Family Income," Brookings Papers on Economic Activity (Washington, D.C. : The Brookings Institute, 1976), pp. 409-451.

[8]Jacob Mincer, "Unemployment Effects of Minimum Wages," Journal of Political Economy (August, 1976), pp. 87-105.

[9]Other studies showing these effects are: William G. Bowen and T. Aldrich Finegan, The Economics of Labor Force Participation (New Jersey: Princeton University Press, 1969); Thomas G. Moore, "The Effect of Minimum Wages on Teenage Unemployment Rates," Journal of Political Economy (July/August, 1971), pp. 897-902; Terrance Kelly, "Two Policy Questions Regarding the Minimum Wage," The Urban Institute, February, 1976, mimeo; Robert Golfarb,"The Policy Content of Quantitative Minimum Wage Research," Industrial Relations Research Association Proceedings, December, 1974, pp. 261-268. Many other references can be found in the bibliographies and footnotes of these studies.

Minimum Wage and Negro Youth

So far my discussion has focused mainly on youth unemployment in general. Now I want to make some comparisons between black youth unemployment and white youth unemployment. Table 2 shows male black/white unemployment statistics by age groups over the past several decades.

Table 2 Comparison of Youth and General Unemployment by Race

Year	General	White 16-17	Black 16-17	B/W Ratio	White 18-19	Black 18-19	B/W Ratio	White 20-24	Black 20-24	B/W Ratio
1948	3.8	10.2	9.4	.92	9.4	10.5	1.11	6.4	11.7	1.83
1949	5.9	13.4	15.8	1.18	14.2	17.1	1.20	9.8	15.8	1.61
1950	5.3	13.4	12.1	.90	11.7	17.7	1.51	7.7	12.6	1.64
1951	3.3	9.5	8.7	.92	6.7	9.6	1.43	3.6	6.7	1.86
1952	3.0	10.9	8.0	.73	7.0	10.0	1.43	4.3	7.9	1.84
1953	2.9	8.9	8.3	.93	7.1	8.1	1.14	4.5	8.1	1.80
1954	5.5	14.0	13.4	.96	13.0	14.7	1.13	9.8	16.9	1.72
1955	4.4	12.2	14.8	1.21	10.4	12.9	1.24	7.0	12.4	1.77
1956	4.1	11.2	15.7	1.40	9.7	14.9	1.54	6.1	12.0	1.97
1957	4.3	11.9	16.3	1.37	11.2	20.0	1.79	7.1	12.7	1.79
1958	6.8	14.9	27.1	1.81	16.5	26.7	1.62	11.7	19.5	1.66
1959	5.5	15.0	22.3	1.48	13.0	27.2	2.09	7.5	16.3	2.17
1960	5.5	14.6	22.7	1.55	13.5	25.1	1.86	8.3	13.1	1.58
1961	6.7	16.5	31.0	1.89	15.1	23.9	1.58	10.0	15.3	1.53
1962	5.5	15.1	21.9	1.45	12.7	21.8	1.72	8.0	14.6	1.83
1963	5.7	17.8	27.0	1.52	14.2	27.4	1.93	7.8	15.5	1.99
1964	5.2	16.1	25.9	1.61	13.4	23.1	1.72	7.4	12.6	1.70
1965	4.5	14.7	27.1	1.84	11.4	20.2	1.77	5.9	9.3	1.58
1966	3.8	12.5	22.5	1.80	8.9	20.5	2.30	4.1	7.9	1.93
1967	3.8	12.7	28.9	2.26	9.0	20.1	2.23	4.2	8.0	1.90
1968	3.6	12.3	26.6	2.16	8.2	19.0	2.31	4.6	8.3	1.80
1969	3.5	12.5	24.7	1.98	7.9	19.0	2.40	4.6	8.4	1.83
1970	4.9	15.7	27.8	1.77	12.0	23.1	1.93	7.8	12.6	1.62
1971	5.9	17.1	33.4	1.95	13.5	26.0	1.93	9.4	16.2	1.72
1972	5.6	16.4	35.1	2.14	12.4	26.2	2.11	8.5	14.7	1.73
1973	4.9	15.1	34.4	2.28	10.0	22.1	2.21	6.5	12.6	1.94
1974	5.6	16.2	39.0	2.41	11.5	26.6	2.31	7.8	15.4	1.97
1975	8.1	19.7	45.2	2.29	14.0	30.1	2.15	11.3	23.5	2.08
1976	7.9	19.7	40.6	2.06	15.5	35.5	2.29	10.9	22.4	2.05

Source: Adapted from Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics 1975--Reference Edition (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 153-55

While most people are knowledgeable of the current deteriorated market position of black youngsters relative to white youngsters, not many are aware of black/white youth employment statistics for earlier periods in our history. The most striking feature of Table 2 is that in 1948 black youth unemployment was roughly the same as white youth unemployment. Only among black youths (20-24) was the unemployment rate

significantly higher. However, for black youths age 16-17 their unemployment rate was less than that of white youths - 9.4 percent unemployment compared to 10.2 percent of white youths unemployed. Now, and for the last decade, black youths age 16-17 have suffered an unemployment rate considerably more than twice that of white youth. In fact for every age group among youths black youth unemployment is more than twice that of white youths. The statistics cited here understate the true nature of the problem by a wide margin. The reason is that they are national statistics and do not reflect the fact that much youth unemployment is concentrated in our major metropolitan areas. Black youth unemployment in some of those areas has been estimated to be as high as 60 percent!

Another part of this dismal picture is the labor force participation rate among black youth compared to white youth. Table 3 shows this comparison. In earlier periods, black labor force participation rates for all age groups exceeded that of whites. In fact, historically, black labor force participation has always exceeded that of whites. Until the mid-sixties blacks, as a group including black youth, had a labor force participation rate equal to or greater than whites.[10] For black youths age 16-17 their labor force participation rate is now slightly over one-half that of white youths. Black youths (18-19) the labor force participation rate is now three quarters that of white youths (18-19). Black youths (20-24) now have a labor force participation rate 90 percent of white youths (20-24). Not only are the labor force participation rates of black youth less than white youths but they are falling.

Faced with these facts one naturally asks why have labor market

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[10]In 1910, 71 percent of blacks over 9 years of age were employed compared to 51 percent for whites. See U.S. Bureau of Census, Negro Population, 1790-1915 (Washington, D.C.: U.S. Printing Office, 1918), pp. 166.

Table 3

Male Civilian Labor Force Participation Ratio by Race, Age

		B/W Males 16-17	B/W Males 18-19	B/W Males 20-24	B/W Males 16 and over
	1954	.99	1.11	1.05	1.00
	1955	1.00	1.01	1.05	1.00
1.00/hr	1956	.96	1.06	1.01	.99
	1957	.95	1.01	1.03	.99
	1958	.96	1.03	1.02	1.00
	1959	.92	1.02	1.04	1.00
	1960	.99	1.03	1.03	1.00
1.15/hr	1961	.96	1.06	1.02	.99
	1962	.93	1.04	1.03	.98
	1963	.87	1.02	1.03	.98
	1964	.85	1.01	1.04	.99
1.25/hr	1965	.88	1.01	1.05	.99
	1966	.87	.97	1.06	.98
1.40/hr	1967	.86	.95	1.04	.97
1.60/hr	1968	.79	.96	1.03	.97
	1969	.77	.95	1.02	.96
	1970	.71	.92	1.00	.96
	1971	.65	.87	.98	.94
	1972	.68	.85	.97	.93
	1973	.63	.85	.95	.93
2.00/hr	1974	.65	.85	.95	.92
2.10/hr	1975	.57	.79	.92	.91
2.30/hr	1976	.57	.77	.91	.90

Source: Computed from U.S. Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics 1975--Reference Edition (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 36-37.

opportunities deteriorated so precipitously for black youths relative to white youths? Can racial discrimination explain this kind of reversal? Probably not. It would be very difficult for anyone to sustain an argument which held that business and society have become more racially discriminatory than they were in the past. The answer lies elsewhere

as has already been suggested - the minimum wage law.

Earlier I said that economic theory predicts that when a wage is legislated that exceeds worker productivity firms will have inducement to make adjustments in its use of labor. Though not intended this adjustment which firms can rationally be expected to make has racial effects. That is, one type of adjustment is to hire not only fewer youths, relative to other inputs, but seek among those youths hired the ones with higher qualifications. As it turns out for a host of socioeconomic reasons with which we are all familiar white youths, more often than black youths, have better educational backgrounds. Therefore, as reflected in the unemployment statistics, increases in the minimum wage law can be expected to impose a greater unemployment burden on black youths than on white youths. Observations such as those that I have cited are those which prompted Milton Friedman, our economist Nobel prize winner, to say that the minimum wage law is the most anti-black law on the books.

Current Minimum Wage Law Proposals

The proposed 1977 amendments to raise the minimum wage and index it to the average wage of production workers in manufacturing will have serious unemployment consequences for youth. The rise in the minimum wage will raise youth unemployment. Gramlich has recently argued that a 25 percent increase in the minimum wage would lower the employment of low wage youth by 10 to 15 percent.[11] This calculation implies that a rise in the minimum wage from $2.30 to $2.85 per hour will decrease low wage youth employment by 9.6 percent to 14.4 percent.

Indexing the minimum wage will reinforce the unemployment effects of the rise in the minimum wage. Inflation has the effect of lowering

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[11] American Enterprise Institute, Minimum Wage Legislation (Washington, D.C.: American Enterprise Institute for Policy Research, 1977), p.15.

the effective minimum wage. That is, inflation lowers the real wage, i.e., the money wage deflated by the price index. Therefore, if inflation can be said to have any beneficiary effects, it is that inflation erodes the legislated minimum wage and hence mitigates some of its adverse impact on youth. Indexing the minimum wage to the average wage in manufacturing will eliminate this effect and hence exacerbate youth unemployment.

One hope against the predicted large increase in youth unemployment, should the proposed amendment pass, is the inclusion of a significant youth differential. If Congress wants to reduce the expected unemployment effects of the proposed amendment, firms should be permitted to hire youths at rates considerably less than the adult rate.

Should the proposal pass as it is now the likely result is a mixture of the two following outcomes. Taxpayers are going to be called upon to tax themselves to support massive federal programs to provide income for the nation's disadvantaged who will not be employed by the private sector. The more tragic alternative is that millions of youths will become discouraged and permanently drop out of the labor force.

Conclusions

My testimony at these hearings could include many other federal regulations and laws that make it almost impossible for present disadvantaged minorities to enter the mainstream of American society as have earlier disadvantaged minorities. The point that I wish to make in the strongest fashion possible is that many laws, though well-intentioned, spell disaster for a large segment of black, Hispanic and other disadvantaged minority groups. The most tragic element of this is that society will come to view the difficulty that these groups have in fully entering the

mainstream of American society (in spite of the billions of dollars spent, in spite of civil rights legislation, in spite of thousands of civil rights litigation cases) as group incompetence, and as such the most racist elements of society will have their prophecies realized. Hardly anyone acknowledges that many, if not most, of the problems encountered are neither due to group nor individual incompetence but due to the excesses of government influenced by politically powerful interest groups. Many of these groups in the pursuit of their objectives contribute to the enactment of laws which spell disaster for disadvantaged Americans.

The CHAIRMAN. Thank you very much, Dr. Williams.

Senator HATCH. Mr. Chairman, can I address my question to the Chair at this point?

I have to leave but I have a number of questions that I wanted to ask these gentlemen. Would it be possible for me to submit written interrogatories or written questions?

The CHAIRMAN. It is certainly all right from where I sit.

Gentlemen, will you be prepared to receive written questions for written responses?

Senator HATCH. I would appreciate it if you would.

The CHAIRMAN. We have some time now. These can be done without any rush or pressure.

If we have them by the end of the month, it will still be time for the record.

Senator HATCH. We would appreciate it, gentlemen.

The CHAIRMAN. Are you all in an academic term now, a summer term?

Dr. SOWELL. I guess I am.

Dr. KOSTERS. Yes.

The CHAIRMAN. This will be something you can work on to the end of the term.

Do you teach, Dr. Kosters?

Dr. KOSTERS. No, I do not teach. I am mainly in research. I am not in an academic term in that regard, but these people in academic terms, Mr. Chairman, I am sure work all summer, too.

Dr. SOWELL. Yes.

The CHAIRMAN. Well, where did you come from today?

You traveled from California?

Dr. SOWELL. Yes.

The CHAIRMAN. And you come from Philadelphia, I understand.

And Dr. Kosters?

Dr. KOSTERS. Washington.

The CHAIRMAN. We appreciate your long journeys, and I appreciate your being here from Washington, too.

Obviously we are in a sea of complexity here with you eminent economists arranged in many respects in disagreement with the first panel of eminent economists. And, of course, our job is to try to understand, as much as we can, the whole situation and come to the right result.

We have listened to the judgment and opinions of people deeply involved and knowledgeable in the field of employment and how we can put stimulants into law for the employment of young people. We have done this because we have been concerned about this tradition and whole problem of higher unemployment among young people.

As you know, one way we responded to the fact of life was when we passed legislation in 1974. We had persuasive testimony that students needed supplementary income; that students should be encouraged to work; that the minimum wage would be a discouraging factor for certain industries to hire them and, therefore, they wanted to have a subminimum. And we accepted this in that particular community of students.

And we did legislate a subminimum wage that I am sure you are all familiar with—the student certification program, 85 percent of the

minimum wage for retail and service establishments. You are all familiar with that?

Are you familiar with its acceptance by the business communities and their application for subminimum youth to serve in service and retail businesses?

And have you seen the statistics on that?

Dr. KOSTERS. Yes, I have seen some statistics on that.

The CHAIRMAN. Well, what are the statistics you are working with now?

Dr. KOSTERS. I saw some statistics provided to me by staff members of the Bureau of Labor Statistics on the number of firms who came in for special subminimum wage qualification. I have not seen the most recent date.

The CHAIRMAN. Well, in 1976, 21,170 certificates were issued to retail and service establishments. The number of establishments that qualified at that time was 800,000. That is, 800,000 qualified establishments to get youth workers at the subminimum wage. And only 21,000 made that application.

I am just wondering if there is any reason to explain that—if the subminimum is indeed going to be a key factor in employing youth?

Dr. KOSTERS. I would like to make the following point on that. According to the Paperwork Commission, business now spends on the order of $25 billion to $32 billion a year on paperwork for the Federal Government. And what this means, it seems to me, in the context of special certificates to hire youths at a subminimum wage, Mr. Chairman, is that only large firms can afford to engage in the paperwork that is required in order to get a special qualification for it. So I attribute it, at least in part, to the costs as opposed to the benefits.

Dr. SOWELL. If I may say something on that as well?

As an academic, I have had occasionally the offer of getting students on special programs, Mr. Chairman, at zero wages, to help me with my work. And I have turned them down for much the same reason. It is not worth the hassle to go through the process.

In other cases where I had grant money to hire people at substantial salaries—and with much less bureaucratic redtape—I have hired them.

I think that the case of Europe is much, much clearer because there is no redtape. There is simply an exemption which is open to all.

The CHAIRMAN. You have been through the application process on these student certificates?

Dr. SOWELL. No. I refused to go through them because it is not worth it to me.

The CHAIRMAN. You ought to give it a shot because the way we wrote in that provision and the way the regulations came out, it is a very simple one-document mailing. You mail the application and that is all. It is not a burdensome paperwork problem.

That is why I am particularly impressed with this low number of applicants. It is not a bureaucratic big deal.

Dr. SOWELL. Senator, if I may say so, the knowledge required even to know that, you know, is one of the problems.

For example, I did not know that. And I am not about to spend time finding all that out.

I do know in other areas where I have tried to employ people, I have to go through God knows what all.

The CHAIRMAN. On the escalating subminimum—as you suggested, Doctor—I think that would be more of a bureaucratic maze for the small employer than a simple one-application mailing.

How do you suggest your escalation of the subminimum would work?

Dr. KOSTERS. Well, I would be perfectly happy with a subminimum for all teenagers, Mr. Chairman, of a given amount.

That is, for example, one possibility would be retaining the current level of the minimum wage for all people below the age of 20.

However, because the Congress may be reluctant to do that, I would only point out that for teenaged workers aged 16 and 17, many more of them are affected by an increase in the minimum wage than for those 18 and 19.

So, on that ground what I would suggest is the possibility of graduated special minimum wages that would be at one level for the 16 and 17 year olds, perhaps, and another level for the 18 and 19 year olds—both below the general minimum.

And there, the only knowledge requirement is to know what the level is and how old the person being employed is.

The CHAIRMAN. I guess I would just make an observation here.

The dilemma that I see—and I come from a metropolitan State, a high-density State, a State with older cities, very high unemployment, unemployment in our city areas—and it seems to me that I cannot put the burden of unemployment in the city of Newark on the back of the minimum wage because I know that the jobs are not there for any age.

We are in an economic situation now with 7 million unemployed. And the basic problem here is lack of industry, is lack of business activity.

And for those young people who live in Newark—and I know who they are—their unemployment rate is way above everybody else.

I also know that there aren't any jobs there, and I know there is very little likelihood that there will be many jobs created there.

Some of our finest industry is out 30 miles on the interstate, and people cannot get out from the city because there is no way to get there unless you have your own automobile, and a lot of people do not have that.

That is why I do not put this big factor of unemployment, this great burden upon the minimum wage.

I think the jobs are not there.

Dr. WILLIAMS. I would like to respond to that.

When the statement is made that no jobs are available that is the same as saying that all human wants have been satisfied.

And the number of jobs depends in a large part on the wage rate.

And I'm very sure that if I went back to my university and told the administration that the lowest wage I was willing to accept from here on out is $7,000 a year, he would tell me there is no job available for you.

The fact that a job is available for me means that I am willing to work at a lower rate, at a rate that is comparable to my productivity, sir.

That is, there is a downward sloping demand curve for jobs. And the lower the wage rate, the more people that are going to get hired.

Dr. SOWELL. And I might also say that historically it has not always been true that teenagers have had this tremendously high unemployment rate.

And, specifically, it has not been true that black teenagers have had this high unemployment relative to white teenagers.

The CHAIRMAN. But the point is also true that when our cities were much more active industrially and commercially, and before we had such an exodus of business?

Dr. SOWELL. I see the point you are making.

There are always other factors, though, in every question and problem to be considered.

Unfortunately, this has been one of the dominant defenses of the minimum wage law. And one of the ways of debating the numerical conclusions in the Labor Department's report is very analogous to the situation in the cigarette industry where they say: There are many factors causing lung cancer—as undoubtedly there are. But that is not the question it seems to me. That is completely reversing the question.

The question is not what are the causes of lung cancer: The question is, what is the effect of cigarette smoking.

And if the cigarette smokers have 5 and 10 times the lung cancer rate of others, it does not matter how much lung cancer is caused by smog or anything else.

And I am saying in the case of the minimum wage, both the econometric studies and the Labor Department studies do show these reductions in employment after the minimum wage is increased.

And while we cannot solve all our problems with the minimum wage law and any other law, but the question is, what is the effect of that law?

And the evidence seems overwhelming to me.

The CHAIRMAN. Well, that is where you are heading into disagreement.

You are making a hard and fast conclusion that following a new level of minimum wage, there has been unemployment.

Dr. SOWELL. I am not making a conclusion.

I can cite you the Labor Department studies which show those very numbers; I can cite you the pages and so forth.

They are in the Industrial and Labor Relations Review, January of 1965, page 243, footnote 19.

There is a whole list of them.

And these studies will say, Mr. Chairman, on the one hand there will be the numbers which will show the unemployment after the increase in the minimum wage; and on the other hand, there will be words written by the Labor Department economists saying this has not happened.

Dr. KOSTERS. Could I also make a comment on that briefly?

It seems to me that the argument that there is now a good deal of unemployment, Mr. Chairman, is a very weak argument for disregarding whatever additional unemployment might be caused by an increase in the minimum wage.

The CHAIRMAN. No; I am just saying that it seems to me that you are putting more responsibility for unemployment on the back of the minimum wage than ought to be carried.

That is what I am saying.

Dr. KOSTERS. I agree very much with my colleagues that the repeal of the minimum wage would not solve all the problems in the world.

There are many, many problems.

The point, I think, is that less of an increase in the minimum wage can make a contribution. And we would ask I think: Is that contribution perhaps worthwhile?

The CHAIRMAN. Well, that is why we put in the student certification. But doggone it, it didn't work.

And that is why now we have a whole range of new efforts generated.

They are not in effect yet because the law has not taken hold, but I refer to the youth training employment.

In this committee we are advocates almost with the zeal of the leader of it all—namely, Dr. Sullivan, of OIC—in that we are trying to attack this in a variety of ways: Using the private side as much as possible to stimulate this, giving tax incentives to businesses, to hire the unemployed, and the youth, et cetera.

But with it all we do say, with all of this effort that we know is so necessary, good gosh, if anybody is working, that person should not be a full-time worker making less than the minimum that you need to keep body and soul together.

This is not a luxury minimum we have here, you know. This minimum, as a matter of fact, in terms of a base year of 1961, we are just keeping our nose above water.

Dr. SOWELL. Senator, that is a hypothetical minimum. A hypothetical minimum will not feed anybody or clothe anybody. It is only when he has an actual job and earnings that he is going to be fed and clothed.

The CHAIRMAN. And then if you work full time and you cannot be clothed and fed, and you are actually below keeping your nose above water, what would be the stimulant for a young person to go out there when he knows that this great land of ours is not going to let him starve?

We have the welfare program. Why should he go out and expose himself to all the problems of employment—for less than it takes to be able to eat three meals a day?

Dr. SOWELL. Senator, I cannot give you the answer because the people themselves will give you that answer.

Right now, and with all the high unemployment, the overwhelming bulk of teenagers, black and white, are working at the current minimum wage, which is lower than the one you are considering.

So clearly it cannot be as impossible as depicted.

The other thing I would like to mention, too, is I think we pass much too quickly over the effect of Government paperwork and the reputation of Government paperwork, which does hinder people from taking advantage of various exemptions when they require those papers.

When there is simply a law that says "You don't have to pay this for people under a certain age," that is one thing. When you have to fill out a paper, that is another thing.

I have turned down consulting jobs even though accepting it when I heard them over the phone. When I get a letter from them and I find out that they are a Government agency—well, on that basis alone, I say "Forget it."

I have been through it before.

The CHAIRMAN. Well, you are multiplying the myth right here and now because on this student certificate thing, there is not that kind of paperwork.

I am told by people who work with it, there is a minimum amount of paperwork needed for an application.

Dr. SOWELL. But Senator, my whole point was that I didn't know how much paperwork was involved in dealing with that Government agency. All I knew was that it was a Government agency.

And I said, "Forget it."

The CHAIRMAN. Well, there you have bought the myth, lock, stock, and barrel, without testing it.

Dr. SOWELL. No; I have experienced it too many times—for instance, just getting my expenses covered to fly back to California.

The CHAIRMAN. But you said you did not even try to use the student certificate program.

Dr. SOWELL. No. I am not about to test every single example of Government agencies.

The CHAIRMAN. But this is what we are talking about: Young people working.

Dr. SOWELL. I know that, Senator.

That is why I am saying that there may be other people who may not be able to test every new program that comes down the pike.

After getting hit with Government redtape 30 times in a row, they are not going to approach the Government the 31st time with their mind a tabulasa rasa. They are not going to make up their minds on the basis of saying, "Oh, I know the Government is not going to do it again."

The CHAIRMAN. Now, let me tell you this: You know we have an elaborate demand upon businesses to keep very complete records where we have an industry where a part of the compensation is through gratuities, through tips. So I put it to them, I said: Look, we would like to take that paperwork and ease your burden.

And you know, they would much rather have the paperwork burden and the tip credit than to get rid of the paperwork burden and have no tip credit.

That is just an example.

So, I am just not sold on this feeling that paperwork is stopping people from whatever they want to do.

Dr. SOWELL. In the case of the tip credit, the amount by which the wages will go up, Senator, will sometimes be in the nature of 100 percent. And I think for 100 percent, I think that is a different problem entirely.

The CHAIRMAN. I didn't hear.

Are you commenting now on the merits or demerits of the tip credit?

Dr. SOWELL. Yes.

The CHAIRMAN. Well, I opened up the subject, so under the rules you can comment.

And I would guess you are opposed to our eliminating the tip credit over a long period of years?

Dr. SOWELL. I am opposed to it completely because many people on tips are earning far more than the minimum wage right now.

And in terms of the employer's own outpayment as far as the tip credit is concerned, if his outpayment has to be increased 100 percent,

they may lose not only the wage that he would pay them—which is relatively minor in many cases—but they may lose wages of maybe $5 or $6 an hour—just because we are trying to keep them from earning less than $2.30.

The CHAIRMAN. I want to give you the opportunity to have the wisdom of Senator Javits through his observations or questions.

Senator JAVITS. Well, I thank you, Mr. Chairman.

I think the witnesses have made themselves abundantly clear.

And I really have very few questions.

You have tried to supply what I have found missing with our other witnesses that we have heard here—and that is a factual base for the claim that employment will suffer, that we pay for a rising minimum wage with greater unemployment.

And the problem we face, I think, is whether or not that greater unemployment comes in the adult ranks where it throws a much greater welfare and other burden upon us; or whether that comes in the youth ranks—in the sense that we don't get any proof of the unemployment situation among youth being worsened.

But you have made an endeavor to do that, which I greatly appreciate.

And, by the way, have you looked at—and I do not know whether you testified to it while I was out of the room, but at the Brookings Institution study on this subject of economic activity, written by Bun and Perry, 1976? Have any of you reviewed that study as far as this question?

Dr. KOSTERS. I am not sure which one you are referring to, Senator.

Senator JAVITS. Pardon?

Dr. KOSTERS. I am not sure which one you are referring to.

Senator JAVITS. Well, it is right here. You can look at it.

I just wondered whether you had seen that study and had any observations to make about it.

I want it back. Have you seen that?

Dr. KOSTERS. Oh, yes.

Senator JAVITS. Do you generally agree with those conclusions?

Dr. KOSTERS. No.

The CHAIRMAN. You disagree with Brookings?

I missed something.

Senator JAVITS. Yes, he disagrees.

The CHAIRMAN. Okay.

Senator JAVITS. A healthy disagreement, I might say.

Dr. KOSTERS. There are some aspects of the study I disagree with.

For example, I agree very much with the conclusion that the author of that study states with regard to the merits of using the minimum wage as a device for redistributing income.

He said it is extremely ineffective. And I agree.

He also indicates in that study that youth employment is adversely affected by an increase in the minimum wage. I agree with that, and that evidence is consistent with the results of many other studies.

I think it is corroborated by a lot of other evidence.

Senator JAVITS. What do you disagree with?

Dr. KOSTERS. What I disagree with is the general conclusion of the study, that an increase in the minimum wage may well be a desirable policy. It is not clear on what evidence that is based.

It seems to me most of the evidence he presents did not suggest to me that an increase in the minimum wage and no special youth differential would be desirable.

Senator JAVITS. You think his last conclusion is not correct?

Dr. KOSTERS. I think it is not very well supported by the evidence.

Senator JAVITS. The other thing I would like to ask the other panelists, if I may—and we have a vote on and I will have to be very brief—is: Do you attribute in any way this bulge in unemployment among the youth—and by the way, your figures implying that this was not always so, I think that was very facinating—but do you attribute that to the postwar baby boom, which will soon be behind us in terms of the graduation of all of these young people.

So we may be, as Government often does, fashioning remedies for a problem that is about to be abated.

Could we get your opinions?

Dr. SOWELL. Well, in the absence of the minimum wage, surely the increase in the number of young people would have a tendency to lower the wage rate among that group, Senator, if they were free to go down.

In the absence of being free to go down, the only alternative would be not to hire as great numbers of them at a higher rate.

Dr. WILLIAMS. I concur.

Senator JAVITS. You subscribe to that?

Dr. WILLIAMS. Yes.

Senator JAVITS. Now, we are looking for affirmative remedies in this vast problem we have.

We have tried to create employment in the youth employment bill and the various CETA ones, and in the Public Works bill.

We have not yet undertaken anything, however, in the fields of continuing education or skill training.

Would you gentlemen have any views on that?

After all, as I said, we do emphasize the negative—but what about the positive?

Dr. WILLIAMS. Well, there have been a number of studies that evaluate the various manpower training programs—CETA, and that sort of thing.

Regardless of the conclusions of these programs and the amount of money spent, we nonetheless have the youth unemployment problem with us. And it is getting worse in spite of the large amounts of money.

Now, I would conjecture, sir, that the other programs will not mitigate the situation substantially. I think what it will do is it will increase the taxpayer's burden. And after a while, we will see that, well, this one has not worked either.

And I think that the reason is that we have not focused it on the causal effects.

The CHAIRMAN. We have incorporated the same principles that were embodied in the CCC program of the 1930's, which worked so effectively.

It is still talked about as the great example of how government effort can bring people into work that will be meaningful and meaningful for their future lives.

Now, we have included that.

Are you familiar with the CCC program, by the way?

Dr. SOWELL. I have heard of them. I have not read the particular reports on it.

I must say, I am impressed with what a high percentage of projects work well, as evaluated by those who run them.

The CHAIRMAN. Well, and those who served. I had a gentleman in my office yesterday, an older man now, but who was a young man in the CCC.

He spelled out in detail what it meant for him to leave Hoboken, N.J., and go down and do conservation work in South Carolina.

There were multiple social benefits, too, I might say. I think he learned something from these people and they learned something from these Hoboken kids.

And, No. 2, he said it made a difference in his future.

We have to recess.

[The prepared statements of Dr. Galenson, Dr. Sowell, and Dr. Kosters follow:

Statement of Walter Galenson Before the Subcommittee on Labor of the Committee on Human Resources, United States Senate, August 3, 1977

Next year will be the 40th anniversary of the enactment of the Fair Labor Standards Act, which established a minimum wage of 25 cents an hour. Many of the arguments that were used against the Act at that time are still in vogue: that the imposition of a minimum wage would reduce employment opportunities; that it would distort the wage structure; that it was an inefficient way to redistribute income.

Economists are prone to make strong policy statements on the minimum wage, and one would have supposed that by this time, they would have had a firm supportive factual foundation. This is unfortunately not the case. In an excellent survey of the recent literature, Professor Robert S. Goldfarb made the following observations.[1]

1. There is virtually no reliable quantitative work attempting to estimate how wage gains due to minimum wage increases are distributed.
2. The overwhelming preponderance of recent studies on the employment effects of the minimum wage concentrate on teenagers, and evidence on other groups is scarce.
3. The studies of teenage employment effects come to strongly conflicting conclusions.

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1. Robert S. Goldfarb, "The Policy Content of Quantitative Minimum Wage Research," Industrial Relations Research Association, Proceedings of the Twenty-Seventh Annual Winter Meetings, 1974, p. 261.

One of the difficulties with most of the studies is that they are based upon macroeconomic data, and that heroic assumptions are necessary in order to distill out the effects of economic developments that are occurring simultaneously. The problem is compounded at the present time by the volatile state of the economy, and in particular by the continuing high rate of inflation. Not until research analysts come down to the industry and local levels are we likely to get quantitative results that are useful for policy purposes.[1] In the present state of our knowledge, it is virtually impossible to predict with any degree of certainty the impact of the changes proposed in S. 1871. About all we can do is to make some tentative observations based upon a reading of our past experience, and to put in a reminder that for forty years, the Fair Labor Standards Act has been of considerable benefit to many of the lowest paid in our society without having had any apparently harmful effects on the economy, dire predictions to the contrary.

1. The original minimum wage of 25 cents an hour, set in October, 1938, equalled 40 percent of the straight time average hourly wage in manufacturing. This ratio persisted until 1950, when it rose to 51 percent.

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1. One such study published by the International Labour Organization appears to have escaped attention. Analyses of the impact of minimum wage changes from 1950 to 1963 yielded the conclusion that employment was reduced by 3.7 percent in the footwear industry and by 0.4 percent in apparel. C. St. J. O'Herlihy, Measuring Minimum Wage Effects in the United States, Geneva, 1969. The Bureau of Labor Statistics has conducted industry studies over the years, with mixed results. For various reasons, none of these studies can be accepted as conclusive.

Successive increases of the minimum in 1956, 1961, 1963, 1967, and 1968 restored the ratios to between 48 and 52 percent. However, the failure of Congress to take any action between 1968 and 1974 resulted in a serious erosion of the effective minimum; in 1973, the minimum wage was only 39 percent of average hourly earnings in manufacturing.

2. If it were true - and let me repeat, there is no evidence that it is true - that an increase in the minimum wage adversely affects employment, the opposite should hold. The six-year decline in the effective minimum from 1968 to 1974 should have contributed to a reduction in unemployment. There is no evidence that it did. The problem with arguments on both sides of the issue is that the major forces that determine the level of employment swamp any separate and probably minor effects that might be attributed solely to a change in the minimum. Ceteris paribus is not a very useful concept for dealing with real problems.

3. The increase in the minimum wage to $2.00 that went into effect on May 1, 1974, raised the minimum/average wage ratio to 48 percent. Despite a subsequent increase to $2.30, inflation has eroded the ratio to about 43 percent at the present time. Raising the minimum to $2.65 would restore the ratio to about 48 percent, still below the average level that prevailed from 1950 to 1968. The indexing proposed in the draft bill would have the effect of eventually maintaining the minimum/average wage ratio at about the 1950-1968 level, which seems a reasonable goal in view of the fact that there were no demonstrably serious effects on the economy during that period of almost two decades.

4. I must confess that I am not a partisan of the general concept of wage indexing. It has led to many difficulties in countries that have practiced it for long periods. But it is a fact that a great many American workers now enjoy indexing, and if any group in society needs this kind of protection, it is the low paid. Many, if not most of them are not unionized and do not have collective bargaining machinery to prevent the erosion of their real incomes.

5. It would be difficult, in my view, to sustain the argument that the minimum wage has constituted a serious inflationary force in the United States in the past. There have been attempts to estimate the impact of minimum wage increases upon the general level of wages, but no satisfactory conclusions have been reached. We know very little about the repercussions of minimum wages upon the wage structure. The history of minimum wages suggests the strong possibility that the minimum wage tends to follow the general wage level, rather than to act as a propelling force. The proposed changes in the law may well raise earnings in low-wage industries - that is their purpose, after all - but whether they will contribute in any substantial way to the maintenance of our present rate of inflation is doubtful, if the record of the past tells us anything.

6. The most fashionable argument against the minimum wage at the present time has to do with its presumed effects upon employment opportunities for young people. It has been said that European countries have been successful in avoiding youth unemployment through special exemptions for young workers, either by law or by collective agreement.

Unfortunately, they are now having problems similar to ours. Indeed, Secretary Vance has recently proposed an international conference on youth employment, under O.E.C.D. auspices, and I believe that it will be held. There is nothing in our experience to show that we are going to be able to provide decent, permanent jobs for our young people by the expedient of paying them low wages. Moreover, if it were a fact that wages were a real obstacle to their employment, there are better ways of handling the problem; for example, Belgium has recently obliged private employers to hire specified quotas of unemployed youths, and government subsidies are paid where necessary.

7. I find it unnecessary to spend much time worrying about the income distribution effects of raising the earnings of a full-time minimum wage employee from the present $4,780 a year to the proposed $5,510. There may well be better ways of improving income distribution. It is quite possible that some of those who receive the increase are members of families with above-average incomes. But it strikes me that a matter of much greater concern is the effect that the increase might have upon the incentive to work, a question that has been completely neglected by most economists. The extra $730 a year may help induce people, and not only young people, to work rather than to live on welfare or to rely on less salutary means of subsistence.

In sum, I have no hesitation in supporting the proposed amendments to the Fair Labor Standards Act. They impress me as among the most desirable of recent social and economic proposals before the Congress.

MINIMUM WAGE ESCALATION

by Thomas Sowell

The presently proposed minimum wage legislation raises two major sets of issues: (1) the question of the real effects of minimum wages, as such, and (2) the effect of the new principle of automatically escalating minimum wage levels, tied to earnings elsewhere in the economy.

Because of inflation, minimum wage levels have been periodically reviewed, and therefore the general issues and growing evidence on the actual effects of the Fair Labor Standards Act have also been reviewed. What an automatic escalation provision means is that we stop looking at the evidence. And we would stop at a time when a growing body of research by independent economists around the country is documenting the negative effects of the minimum wage law-- and particularly its devastating impact on job opportunities for minority teenagers.[1]

Minimum wage laws have been aptly decscribed as "anathema to economists."[2] Even though 88 percent of academic economists supported the "war on poverty," 61 percent of those same economists opposed the minimum wage law.[3] In short, this is not opposition based on philosophy or political leanings, but on economic analysis and on the mounting factual evidence that the law increases unemployment among the very people intended to be benefitted. Moreoever, economic research has also revealed a disturbing correlation between teenage unemployment rates and teenage crime rates.[4] In view of this, this seems like a particularly inappropriate time to stop looking at the evidence by putting in an escalator clause that will give the law a life of its own, independent of its effects on people.

The minimum wage law might be discussed in terms of philosophical, political, or economic theory, but the real issues turn on facts. The crucial factual question is whether eliminating wage rates below some designated level also eliminates jobs. As a realistic matter, few people of any philosophical, political, or economic persuasion would want to see either (a) job-seekers unemployed with a hypothetical right to a "living wage," or (b) people employed at very low wages when they could be equally fully employed at normal wages.

While facts are crucial, they are not easy to get, for a number of reasons which will be discussed. It will also be necessary to consider a number of standard (or stereotyped) arguments about the minimum wage effects which have persisted over the years. Finally, I would like to venture a few suggestions about the continuing need to assess the impact of the law and some ways that assessment might be improved.

I. FACTUAL STUDIES

There are serious problems inherent in trying to study the unemployment effects of minimum wages, as well as other problems that derive from the way the U. S. Department of Labor chooses to approach the issue.

One problem that plagues minimum wage effects studies is getting statistical data for the specific workers directly affected by the minimum. Such workers are often only a small fraction of the total workforce. Even where a substantial proportion of the directed affected workers lose their jobs as a result of a minimum wage increase, this effect can be lost statistically in the random fluctuations in employment of the much larger number of workers whose wages were always above the minimum. The statistical extraction of the relevant changes is analogous to trying to receive an electronic signal through a heavy background of static noise. Different economists use different methods and

devices to mute the bacground statistical "noise" in order to read the signal. As a result of their different procedures for grappling with this problem, economists' numerical estimates of the unemployment effect of the law differ--a variation seized upon by proponents of minimum wages[5]-- but it is increasingly clear that the consensus of these studies is that the law does cause substantial unemployment, and that is more fundamental than the question of exact numbers.

One of the simplest ways of reducing the statistical "noise" in the data is by selecting some age-group which is known to receive very low wages, so that a relatively high percentage of the people in the category chosen are earning low enough wages to be directly affected by minimum wage changes. Teenagers are an obvious choice, and nonwhite teenagers even more so. Here the serious unemployment effect of minimum wage rates has been repeatedly demonstrated by economists operating independently of one another and using different statistical methods.[6]

Extremely high unemployment rates among black teenagers have been so highly publicized in recent years, and so automatically attributed to employer discrimination, that certain historical facts must be noted. Large racial differences in teenage unemployment are of relatively recent vintage. In the late 1940's and early 1950's, there were no such large differences, and indeed, black youngsters 16 and 17 years old had consistently lower unemployment rates than whites in the same age brackets.[7] Surely no one is going to claim that there was less employer discrimination then than now. We all know better. What was the difference, then? Minimum wages had not yet begun the rapid rise and spreading coverage which has been the dominant pattern since then.[8]

The unemployment effect of minimum wages can also be seen in international comparisons of countries that do and do not exempt young people from the adult minimum wage. In countries where such exemptions are slight or nonexistent-- such as the United States and Canada-- youth unemployment is some multiple of adult unemployment. But where there are exemptions that are large and cover a number of working years-- as in England, Germany and the Netherlands[9]-- there are no significant differences between youth unemployment rates and adult unemployment rates.[10]

These findings may reflect the special vulnerability of teenagers as an inexperienced and relatively unskilled group-- or they may reflect the greater statistical ease of determining the facts for this group. A recent survey of minimum wage studies notes "the lack of acceptable continuing data on low-wage adults."[11] The same things known to be happening to teenagers may also be happening to other very low-wage people, who happen not to be grouped together statistically. There are some scattered clues that this is in fact the case. For example,an older study of domestic servants, before they were covered by the Fair Labor Standards Act, showed that their ranks tended to be increased in the wake of minimum wage increases, suggesting the displacement of low-skill women from other employment that was covered by the Act.[12]

Factual studies by independent (usually academic) economists must be sharply distinguished from studies by the U. S. Department of Labor. The Labor Department itself has recently been forced to acknowledge the gap between its perenially optimistic conclusions and the consensus of independent studies, the latter "using advanced economic and statistical analyses."[13] The crudity of the Labor Department studies has been scathingly criticized by academic economists.[14] However, even so, the actual numbers appearing

in Labor Department studies of minimum wage effects often show employment declines in the wake of minimum wage increases, even though the stated conclusions of these very same studies may be that the minimum wage did not cost people their jobs.[15] Congressman Dent is correct only in the narrowest sense when he asserts that "Not once in the history of the minimum wage has there been an adverse report" from the Labor Department about "the lessening of job opportunities."[16] In this context, such a statement is far from reassuring. It will hardly be the first clean bill of health given by an agency evaluating itself or the legislation on which its own appropriations and staff depends. This is especially unsurprising to me, as one who worked inside the Labor Department on minimum wage research, and who personally experienced the pressures to reach conclusions consistent with the Department's interests.

II. ASSUMPTIONS AND CLAIMS

The economic analysis which concludes that minimum wages increase the unemployment of low-wage workers rests essentially on the belief that labor is no exception to the general rule that less is demanded at a higher price than at a lower price. Attempts to overturn this basic economic principle usually reduce to one of four assumptions or assertions:(1) there is a fixed number of workers demanded, more or less without regard to wage rates; (2) low-wage workers are victims of employer monopoly power rather than low productivity, so that raising their wage rates will not price them beyond their value to the employer and therefore will not price them out of a job; (3) higher wage rates will cause employers to use labor more efficiently, so that workers will then become valuable, and so will not lose their jobs;

and (4) the increased "purchasing power" caused by higher minimum wages will lead to a greater demand for goods, and therefore a greater demand for labor, offsetting any tendency toward unemployment. These arguments will be examined in order.

FIXED DEMAND: The idea that an employer "needs just so many men"[1] is an old one, which dies hard. Factually, it can hardly stand up in face of declining employment after wage increases, or the virtual elimination of such occupations as Western Union messenger and elevator operators (despite the continued existence of telegrams and elevators). As a theory, it implies that the substitution of capital-- and of higher priced labor-- is impossible. The problem is not when the theory is stated directly and explicitly, but when it is implicitly assumed (and therefore insulated from critical scrutiny), as in the belief that more jobs for teenagers means fewer jobs for adults.

EMPLOYER MONOPOLY POWER: Under special conditions, where there is only one employer in a labor market or a group of employers acting in concert, wages can be kept below what equally productive workers would earn otherwise. There is a special economic theory for such "exploitation" situations, and a minimum wage increase under those conditions would not produce unemployment.[17] Unfortunately, low-wage workers are very unlikely to be in such situations. All sorts of firms, industries, and even households employ unskilled workers, and collusion under these conditions is out of the question. Even such a staunch advocate of minimum wages as the late Senator Paul H. Douglas noted that the market for unskilled labor was one of "almost perfect competition."[18] The sad fact is that low-wage workers are not so much underpaid as under-skilled, and there is no easy way around this problem without pricing them out of a job.

"EFFICIENCY": Theories of offsetting rising wages by increasing efficiency have long been used to claim that minimum wage increases will not reduce employment. Unfortunately, those who argue this way have not distinguished real efficiency-- larger output from given combinations of input-- from a mere substitution of one input for another as their relative prices change. The examples they cite of "better" or "more efficient" methods of production after a minimum wage increase are methods well-known to employers before the imposed wage change, and were not used then simply because they were not the cheapest methods available under the previous input prices. If higher wage rates lead to the substitution of capital for labor, then by definition there will be more output per unit of labor, but it is mere word play to call this more "efficiency" if the product now costs more to produce and society has to support unemployed workers as well.

PURCHASING POWER: The doctrine that workers' increased purchasing power after a minimum wage increase will sustain employment has many problems with it,[19] but the most fundamental problem is that it assumes the very thing that is at issue: that the workers keep their jobs and work as many hours as before. If not, their hypothetical right to a higher wage rate will not buy anything. Workers can only spend real earnings, not hypothetical rights. Once this is realized, it is hardly necessary to go into the other deficiencies of the theory, such as the fact that inflationary increases mean that more spending power is not more purchasing power.

III. CONCLUSIONS

The minimum wage law addresses a serious social problem, but creates no new options for dealing with it. In fact, it simply reduces the set of existing options available to the parties-- employers and employees-- who must voluntarily agree if there is to be a job. Trying to make people better off by reducing their options seems questionable even as a theory. In practice, what has happened has been that fewer transactions (less employment) have taken place when there were fewer options open to the parties. It would be very surprising if it were otherwise.

The great unsolved problem remains of what to do about the poor in general, or the low-wage workers in particular. Low-wage workers are not changed by calling them higher-wage workers, any more than students are improved by calling them B students instead of C students. The tragic educational results from the process of upgrading by fiat is hardly a recommendation for extending this practice into the economic sphere. In both cases, it is of course much harder, much slower-- and more heartbreaking-- to try to create real skills and real achievements. And yet nothing else will really do the job.

Automatic escalation compounds the problems of the minimum wage law by making it possible to close our eyes to its effects hereafter. This seems unconscionable when those affected are poor, vulnerable, powerless, and inarticulate. If the Congress does not monitor what happens to them, there is no other powerful institution to do so. The set of incentives confronting the U. S. Department of Labor makes it unrealistic to expect it to critically evaluate minimum wage effects, and nearly 40 years of history makes it painfully apparent that it has no intention of doing so. Labor unions have their own imperatives and constraints. For them, the minimum wage law presents the same kind of opportunity that a tariff presents to a business firm. It is a way to price competitors out of the market. That this is accompanied by humanitarian

statements may be a matter of rhetorical, or perhaps political, interest but it changes no economic fact. In the Union of South Africa, minimum wage laws were applied to native black Africans for the explicit purpose of stopping their competition with European workers.[20] In the days of the British Empire, British unions and manufacturers attempted to get minimum wages applied to India for similar reasons, though with different rhetoric.[21] American unions and businesses have been doing something very similar in Puerto Rico and other affiliated territories where minimum wages are set by tripartite boards of mainland Americans, often from competing firms.

The point here is not to depict anyone as particularly evil. The point is that powerful institutional incentives exist to use the minimum wage laws for purposes very different from those announced in the Act, and that these institutional incentives are likely to persist through turnovers of personnel in the future as in the past.

Special interests, recognized as such, may be kept within bounds. For the special interests revolving around the minimum wage laws, Congressional oversight seems especially needed, and therefore automatic escalation seems especially dangerous.

Finally, my hope would be that some way might be considered to have the statistical analysis of minimum wage effects performed by some organization other than the agency whose own fate is intertwined with that of the Fair Labor Standards Act.

FOOTNOTES

1. Marvin Kosters and Finis Welch, "The Effects of Minimum Wages on the Dist ribution of Changes in Aggregate Employment," American Economic Review, June 1972; Thomas G. Moore, "The Effect of Minimum Wages on Teenage Unemployment Rates," Journal of Political Economy, July/August, 1971; Michael C. Lovell, "The Minimum Wage, Teenage Unemployment and the Business Cycle," Western Economic Journal, December 1972.
2. Peter B. Doeringer and Michael J. Piore, Internal Labor Markets & Manpower Analysis (D. C. Heath & Co., 1971), p. 182.
3. Jacob J. Kaufman and Terry G. Foran, "The Minimum Wage and Poverty," Readings in Labor Market Analysis, ed. J. F. Burton, Jr., et. al. (Holt Rinehart & Winston, Inc., 1971), p. 508.
4.
5. "...the estimated magnitude of these employment impacts and the distribution of these impacts vary among the studies." Statement of Assistant Secretary of Labor, quoted in Minimum Wage Legislation (American Enterprise Institute, 1977), p. 14.
6. See note 1 above.
7. Employment and Training Report of the President (Government Printing Office, 1976), pp. 242, 243.
8. Minimum Wage Legislation, p. 2.
9. U. S. Department of Labor, Bureau of Labor Statistics, Youth Unemployment and Minimum Wages, Bulletin 1657 (Government Printing Office, 1970), p. 138.
10. Ibid., p. 149, Table 10.1. It should be noted that the Netherlands did not have a minimum wage before 1966, so the entry in the table for 1960-64 is misleading.

FOOTNOTES - 2

11. Minimum Wage Legislation, p. 15.
12. Yale Brozen, "Minimum Wage Rates and Household Workers," Journal of Law and Economics, October 1962.
13. Quoted in Minimum Wage Legislation, p. 14.
14. George Macesich and Charles T. Stewart, Jr., "Recent Department of Labor Studies of Minimum Wage Effects," Southern Economic Journal, April 1960. See also Thomas Sowell, "The Shorter Work Week Controversy," Industrial and Labor Relations Review, January 1965.
15. Numerous specific citations of Labor Department studies are listed in Sowell, op. cit. ;. 243.
16. Representative Dent quoted in Minimum Wage Legislation, p. 10.
17. Albert Rees, The Economics of Work and Pay (Harper & Row, 1973), pp. 75-78.
18. Paul H. Douglas, The Theory of Wages (Augustus M. Kelley, 1964), p. 78.
19. See Sowell, op. cit., pp. 241-242.
20. P. T. Bauer, "Regulated Wages in Underdeveloped Countries," The Public Stake in Union Power, ed. Philip D. Bradley (Univ. of Virginia Press, 1959), p. 346.
21. Ibid., p. 332.

August 3, 1977

Statement by

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I welcome this opportunity to discuss issues relating to the Federal minimum wage. I am very much encouraged by the interest that is being shown in seriously examining the issues that are relevant to considering an increase in the basic minimum wage level and related changes. I will briefly discuss what I consider to be some of the main issues -- first in general terms, and then in terms of the approach proposed in the Bill, S. 1871.

The question of the effects of the minimum wage on employment is perhaps the most convenient place to begin a discussion of the implications of raising the minimum wage. Much of the extensive research on minimum wage issues that has been done in recent years has been addressed to this question, and whether employment effects are important or not is a question of general interest. Employment effects are, of course, not the only perspective from which minimum wage policies should be examined. The influence of the minimum wage on the distribution of income must also be considered, as well as, for example, its influence on inflation. Moreover,

in addition to effects on employment levels, related questions concerning where these employment effects are concentrated and how job characteristics are affected should also be considered.

On the question of the effects of the minimum wage on employment, there is considerable agreement among professionals who have examined the evidence that raising the minimum wage results in lower employment for certain groups. The groups affected are those at the low end of the wage distribution -- groups in which many are working at wages below the level to which the minimum wage is raised, mainly teenagers. For these workers the possibility of a job at a higher wage is accompanied by increased difficulty in finding anyone willing to pay the high wage. The net result shown by the evidence from a large number of research studies is that higher minimum wages mean fewer jobs.

I do not think it would be overemphasizing areas of agreement to say that there is now little dispute among professionals about whether raising the minimum wage would have disemployment effects. Instead, disagreement about employment effects is now mainly centered on the magnitude of the effects. For example, Secretary Marshall is reported to have indicated that he would not deny that raising the minimum wage would have some disemployment effects. The estimate that he presented of 90 thousand people is apparently based on relatively low estimates of the magnitude of minimum wage effects. Estimates from a research paper by Welch and Cunningham scheduled to be published in the Review of Economics and Statistics would lead to disemployment estimates of 5 to 7 times as many people.

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Disemployment effects are not uniformly spread among people, however, even for groups such as teenagers. They are instead concentrated among younger teenagers, among black teenagers compared to white teenagers, and, in general, teenagers with the lowest earning capability. There is also evidence of more part-time work among those employed compared to full-time work. Higher minimum wages may also lead to lower training provided by employers, in addition to limiting opportunities for work experience for those who could benefit most from this contribution to their earning potential in the future.

Higher minimum wages, of course, alter the income distribution in favor of workers able to obtain employment at the higher wage levels. The appeal of the minimum wage as a way to reduce poverty or to increase equality in incomes is limited, however, by the loose relationship between family income and low wages, particularly for teenagers. In fact, one study reports that family income for low-wage teenagers is higher on average than for high-wage teenagers. Moreover, to the extent that higher minimum wages are translated into higher labor costs and prices -- more inflation -- attempts to alter the distribution of income through higher minimum wages are at least partly self-defeating. Higher minimum wages may be relatively quickly reflected by higher consumer prices because a large share of low-wage workers are employed in the retail trade sector. I am not aware of any study in which this issue has been examined that has concluded that raising the minimum wage is an effective or efficient device for modifying the distribution of income.

In view of the evidence of disemployment effects for teenagers of an increase in the minimum wage, concern has sometimes been expressed that more jobs for teenagers at a lower minimum wage would mean correspondingly fewer jobs for adults. Although there is little evidence on this issue, these points should be noted in considering its possible significance. First, since a higher proportion of teenagers are part-time workers than is the case for adults, the typical job for a teenager involves fewer hours of work. Second, the contribution to production of a teenage worker is on average lower, as measured by their wages, than for adults. Adjustments for both of these factors should be made for comparisons of the number of jobs for teenagers equivalent to an adult job. Third, and most importantly, the total number of jobs in the economy at any time depends in part on wages that must be paid. Thus, lower minimum wages have job creating effects that augment the total number of jobs in the economy in addition to changes in the distribution of jobs that may take place.

There are two issues that I would like to focus on in terms of the minimum wage changes in the current proposal. The first is the potential merit of differential minimum wage levels for groups most vulnerable to the disemployment effects of an increase in the general minimum wage. I believe that a graduated youth differential, rising toward the general minimum wage with age, should be considered. The additional opportunities for work experience that could be expected for low-wage teenagers could make a valuable contribution to the earning

prospects of the relatively disadvantaged young workers. Moreover, according to the available evidence the influence on the income distribution of a youth differential would be essentially neutral. In addition, a youth differential would permit funding of more youth jobs under Federal employment and training programs since according to recent reports, the proposed minimum wage increases would result in 200,000 fewer jobs funded for the coming fiscal year.

Another group for which a differentially lower minimum wage could be considered is those over age 65. This is a group in which many of those who are working receive low wages. People in this age group are frequently encouraged to engage in volunteer work, both for the contribution they can make and the enrichment of their lives. It seems somewhat inconsistent to restrict their choices to either volunteer work, with no wages to cover out-of-pocket costs, or securing a job at or above the general minimum wage level.

The second issue is the proposal for indexing general minimum wage levels. In the first place, to the extent that the minimum wage is viewed as an income maintenance policy, it would seem more appropriate to use an index of consumer prices than a wage index. The general issue of whether indexation is appropriate at this time may, however, be more important. Indexing according to the proposed formula would bring the minimum wage to a level relative to average wages that is high by historical standards, and it would remain at that level (apart from temporary divergences associated with different rates of inflation) until a reassessment by the Congress. During the past few years, a great deal has been learned

about the effects of minimum wages from many careful research studies. While unresolved issues remain, we can reasonably expect that new and better information and insights will be developed in the future. Consequently, I believe that the opportunity for the Congress to periodically reassess minimum wage policy should be retained so that new research results and experience can be taken into account.

If an increase in the minimum wage is regarded as necessary at this time, establishing fixed increments is preferable to indexation because it more readily permits reassessment and revision of minimum wage policies in light of new information and experience. Special differentials for groups most affected by minimum wages would help to minimize adverse employment effects.

The CHAIRMAN. We will be back at 12:30. We have to go and vote, and so we will recess. We will come back to the women's panel.

I thank you very much.

[Brief recess.]

The CHAIRMAN. We are going to resume our hearing.

We have a panel that is described here as the women's panel, consisting of Leslie Gladstone, Joyce Miller, Nina Heagstedt, and Mary Alice Carter.

We have six witnesses so far this morning and all are doctors.

Are there any doctors in this panel?

STATEMENT OF JOYCE MILLER, GENERAL SECRETARY, COALITION OF LABOR UNION WOMEN, NINA L. HEAGSTEDT, LEGISLATIVE ASSISTANT AND LOBBYIST, NATIONAL ORGANIZATION FOR WOMEN, MARIALICE CARTER, WOMEN'S POLITICAL CAUCUS, AND LESLIE GLADSTONE, LEGISLATIVE DIRECTOR, WOMEN'S EQUITY ACTION LEAGUE, A PANEL

Ms. MILLER. J.D.

Ms. GLADSTONE. I have a master's.

The CHAIRMAN. Well, it is not that important.

Ms. MILLER. I am Joyce Miller. I have distributed a copy of my testimony. I would like to enter that into the record.

The CHAIRMAN. Fine.

Ms. MILLER. I would just like to speak to you from notes, if that is agreeable.

My name is Joyce Miller, and I represent the Coalition of Labor Union Women. I am also international vice president of the Amalgamated Clothing & Textile Workers' Union.

There are 38 million women in the work force, about 46 percent of them 16 years and older. They make up about 40 percent of the work force.

Of these close to 38 million, only 4½ million women are organized in labor unions.

The Coalition of Labor Union Women has concern for those women that are not protected by a union contract.

Women have been ghettoized into the lowest paying jobs.

At one time, women earned 64 percent of what men earned. That figure is falling and the gap of earnings in growing wider. And today women earn only 57 percent of what men earn, as you know.

The passage of the minimum wage bill will better protect unorganized women. In our judgment, this is the only remedy that is going to help women in terms of achieving economic equality.

The intent of the law in 1938, if you remember, was that we don't want workers to compete on substandard wages.

The true discrimination against women, nonwhite workers, and youth is that you find them concentrated in low-paying jobs.

And one of the reasons is the failure to raise the minimum wage.

This group of people, as I think somebody else this morning said, are the most exploited, especially those people working in unskilled jobs.

Most women are not protected by collective bargaining and too often the legal minimum wage of this country becomes the maximum minimum wage for these people.

By raising the legal minimum wage, unfortunately, this is all too often the only way to bring women a measure of economic equality. And women have to be raised out of poverty.

Twenty percent of the women in the work force today are the sole support of their families, and nearly 10 million women in this country have husbands who earn under $10,000 a year.

Of the 52 million people covered by minimum wage, 40 percent are women working in low wage industries: Retail services, domestic workers, apparel workers.

Apparel workers, that is the industry I represent.

We have seen children in our day care centers in the Amalgamated Clothing and Textile Workers Union—our union has set up 7 child care centers for about 1,500 children. And we have seen children that have not received proper medical or dental care or proper food. They are cold in the winter because they do not have the proper clothes.

They have never had the joys of a vacation. They don't know what the country looks like. They have never seen a circus and they have never seen a movie, because the families of these children do not have the money to take their kids to enjoy these kinds of events.

These children are also an easy prey to disease. And we have examined kids in our child care centers whose teeth are rotting because they are not following a proper diet.

Again, I plead with you that women must be raised out of poverty.

Next, inflation. We have two kinds of women that are working: Those that are the sole support of their families. And we have women who now, because of the cost of inflation, so that it takes two people that have a decent standard of living, must work.

Women are working against many of the myths that have been perpetuated. Women are working because they need money in their pay envelopes. They are not working for pin money or because they don't have anything else to do.

They are working because they need jobs and they need the money.

Minimum wage workers are the victims of runaway food costs and fuel costs and inflation. They are not the cause of inflation. I repeat again, they are the victims.

I would also add that by raising the minimum wage to $2.65, we would increase the buying power of those workers.

And these are the workers that are going to spend the increases that they will get. They can help the economy because they will have this extra money, which they are going to spend on necessities.

Without automatic indexing, which we are very much in favor of, we feel that we would just continue to fall behind while the minimum wage laws were attempted to be changed every 2 years.

There is no evidence—and I heard it said by other people here this morning—that a higher minimum wage—well, people have said it is going to discriminate against youth and discriminate against women and minorities, and veterans.

We also do not believe it is going to lead to unemployment, as has been said, also, earlier by another group.

We are also very concerned that there not be a youth subminimum wage.

Women have fought for the Equal Pay Act. And this has been a very important thing in terms of working women. To say now that if you are a teenager, you are going to make less money for the same job that we are paying for an adult; or to say we are going to pay a woman less than a man; or to say we are going to pay a black less than a white—we think leads to the worse kind of discrimination.

A job should be paid for the skill involved, for the responsibility involved—and should not be based on age or sex. A job should have a price that applies to anyone that does that job.

And we should not put ourselves in the position where we are going to fire mothers in order to hire their daughters, because employers can pay them less.

And we say this is exactly what is going to happen if a subminimum wage is allowed to go through for youth.

In the early 1900's, in the apparel industry, we had many fathers, mothers, and children working in our shops in the garment centers. There was a famous line in a movie that celebrated our 50th anniversary of our union, which said, "Why hire a man for a dollar when you can get a kid for a dime?"

And this is the kind of thing that we are most concerned about. And a subminimum would continue and increase the exploitation of women.

Teenagers will decline about 9 percent over the next 10 years while the 20- to 24-year-old age group will increase by 12 percent.

The problem becomes, if you pass this teenager subminimum wage, that then they will become young adults. Are we going to have a subminimum wage for them?

Is it going to go on?

The answer, as said by Mr. Nathan this morning, and which I thought was very clear, is that the subminimum does not create jobs. As far as we are concerned, it only takes jobs away from adults.

And particularly the group we are most concerned about now is adult women.

The answer, as far as we are concerned, to the high unemployment rate among youth, is to create jobs so that there is a job for everyone who is willing and wants to work.

We have a commitment in the Coalition of Labor Union Women to upgrade standards for women. And we have a commitment to the working poor.

And in our judgment this bill would most help the working poor.

So I urge the passage of the Federal minimum wage bill with the indexing and without a subminimum for the youth or for any other group.

Thank you very much.

[The prepared statement of Ms. Miller follows:]

Testimony of Joyce Miller, General Secretary
Coalition of Labor Union Women
Before the Subcommittee on Labor of the
Senate Committee on Human Resources
Wednesday, August 3, 1977 - 9:30 A.M.
Room 4232, Dirksen Senate Office Building

I am Joyce Miller of the Coalition of Labor Union Women. CLUW has about 5,000 members who work in every kind of job, white collar and blue collar, academic, professional, skilled and unskilled, and who are members of trade unions. We work, through CLUW and through our unions, to get fair and equal treatment for women who work for a living.

There are more women in the American workforce than ever before, and they are badly shortchanged.

Since 1951, the number of working women in the United States has more than doubled. In the last 10 years it has increased by 40 percent.

In 1975, almost 37 million women were working or seeking work, which was 46 percent of all women 16 years of age and older. They made up just about 40 percent of the total workforce, and all the signs are that this growth will continue into the future.

Last year, for instance, 1.6 million women joined the workforce, which was nearly double the number of new male jobseekers. Many of these were teenagers just out of school. But many more were married women who were forced to seek jobs because their husbands were either unemployed or earning too little to meet family needs without the help of their wives.

A great many had young children to care for. In March 1975 there were more than 14 million mothers in the workforce who had children under 18 years of age. There were 27.6 million children of working mothers and 21.6 million of them were of school age -- 6 to 17 years old -- and 6.5 million were pre-schoolers five years old or younger.

I think it is very significant that the rate of participation in the

labor force for mothers of young children was 47.4 percent, compared with a rate of 46 percent for all women. I don't think there's a shadow of a doubt that the vast majority of working mothers work because they have to, because they are forced into the job market by family economic need.

So there's buyer's market as far as women workers are concerned. Most women have to take what jobs they can get, and employers take every advantage of that fact. Women as a class are paid a great deal less than men.

There's nothing new in that. All through history women have been paid less than men. But in this enlightened time, when so much emphasis is being put on equal pay and equal opportunity, it is distrubing to find that the pay gap is widening, instead of narrowing.

Back in 1955, according to government figures, the average working woman earned 63.9 percent as much as the average working man. But by 1974 the gap had widened so that women were paid only 57.2 percent of men's pay.

There are two main reasons why the gap is widening. First, although, many women are securing higher level, better paying jobs, the vast majority are still concentrated in low status occupations that provide very limited opportunity for advancement. Second, the large increase in the participation of women in the labor market means that a larger proportion of women workers are at or near the entry level.

Nine out of 10 American working women are employed in jobs that are traditionally female and traditionally low paid. They work in offices, in the needle trades, in the retail industry and in personal services. In 1973,

median pay in such jobs ranged from $95 a week for sales people to $129 for clerical workers. Over all, median pay for women in full-time, year-round jobs was less than $6,500 -- a full $5,000 less than the median earnings of men.

Let me point out that the gap exists only in earnings, not in expenses. There are no discounts for women at the grocery store. There are no special rental rates or reduced tax rates. It costs as much to feed and clothe a child and to ride a bus to work, whether you're a man or a woman.

But there are, without a doubt, special reduced pay rates for women. There are bargain rates, fire-sale rates for employers who profit from the work of women. And in many cases, little as they pay, they pay, they pay it grudgingly. Millions of women would be paid even less, if their employers could get away with it.

To a much greater extent than is true of men, all that stands between these women and even more grinding poverty is the federal minimum wage. Their employers pay not one cent more than the Fair Labor Standards Act requires.

And that is why CLUW respectfully urges this committee and the Congress to see that the minimum wage is a living wage. For millions of women the minimum wage package in HR 3744 is an absolute necessity.

And by every indication that will be true for a long time to come. Cultural and educational patterns change terribly slowly. All of the social experts agree that girls and women who need jobs will continue to find them in the traditional "female" jobs and industries, will remain concentrated on the bottom rungs of the economic ladder, will continue to earn less than their male counterparts.

And that is why CLUW holds that any proposal for a youth subminimum wage is aimed squarely at continuing and increasing the exploitation of women. The only possible outcome would be to reduce the job opportunities for older women, for the wives and mothers who need jobs the most in order to help keep their families' heads above water.

Throughout history, women have struggled for equal pay, equal opportunity and a fighting chance to make a decent life along with men. For Congress to endorse unequal pay and unequal opportunity by endorsing a discriminatory, two-level minimum wage would undo all the progress that American women have made.

Speaking for CLUW AND for working women everywhere, I respectfully urge all of the members of this committee not to let that happen. All we ask is an even break; don't stack the cards against us.

The CHAIRMAN. Thank you.

Excellent. An excellent statement. We appreciate it.

Ms. HEAGSTEDT. My name is Nina Heagstedt.

I am here on behalf of the National Organization of Women.

I want to apologize for our president, Eleanor Smeal, who wasn't able to make it here today.

The National Organization for Women has membership of more 60,000 women and men in all 50 States, and we are dedicated to achieving full equality for women in all spirits of American life.

The most dramatic indication that minimum wage legislation is a women's issue is that an estimated two-thirds of all current minimum wage earners are women. These are the people who will most immediately benefit from the passage of S. 1871, as well as those who will suffer most severely from its defeat.

However, this is by no means the entire substance of our concern. As the percentage of women in the work force increases—and as the chief concentrations of female workers continue to be in the lowest paying occupations—the established earnings floor will play a major role in determining the economic welfare of women in our society.

Last year, women comprised 41 percent of all workers. And most of these women worked, not for those old, mythological reasons of "earning a little pin money," but for the very real and immediate reasons of self-sustenance or family survival.

Of women in the work force, in March 1976, 24 percent were single, 19 percent were widowed, divorced or had absent husbands, and 24 percent had husbands with incomes less than $10,000.

One of every ten working women was the head of a family and usually its sole support. And as of 1975, one-third of all families headed by women were living in poverty; for female-headed families with children under the age of 18, it was a distressing 44 percent.

It must furthermore be pointed out that the proposed minimum wage will not raise many of these women above the poverty level for more than a year—assuming that the poverty line does not continue to rise. As of April of this year, the cutoff line for poverty program participation for a family of four was set at $5,850. This translates into $2.81 an hour. The initial hike from $2.30 to $2.65 will narrow the gap between the minimum income and poverty, by raising the gross annual salary from $4,784 to $5,512. However, not until the early 1980's will the minimum wage provide an alternative to poverty.

In addition to the general benefit of this bill to those at the bottom of the economic spectrum, there are at least two specific groups of women who stand to gain from the provisions of this bill.

The first is that of young women. As societal values change, there has been an astounding increase in the numbers of young women entering the labor market. More than 40 percent of women 16 and 17 years old were working at least part time. For those between the ages of 18 and 19, the participation rate is at 59 percent, and 65 percent of all women between the ages of 20 and 24 are part of the labor market—the highest participation group.

Again, as with the entire female population, necessity is the primary cause for seeking work. Forty percent of all women between ages 20 and 24 remain single. In addition, 37 percent of all women in this age group who have preschool children also work. A substantial proportion of women under the age of 24, 36 percent year-round work full-time. This compares rather well with the corresponding figure for men—44 percent.

These statistics make the suggestion of a subminimum wage for young people especially repugnant to women. A subminimum at 85 percent of the proposed $2.65 equals an hourly wage of $2.25—a shameful $90 gross per week, or $4,680.00 per year. To consign so many young women—many of them with dependents—to poverty even greater than their current lot, is for us, an untenable position. It is even more despicable when we consider that the proponents of these slave wages are the same people who oppose federally financed day care and malign the recipients of welfare.

The other group of women receiving special benefit from this bill is waitresses and other tipped employees. The tip credit amendment should do much to humanize the wage system under which tipped employees currently operate.

Currently, tip credit is set at 50 percent of the minimum wage of $1.15 an hour. This means that a tipped employee must receive more than $1.15 in tips per hour to exceed the minimum wage. As any of us who have waited tables and most of us who dine out know, the amount of money to be earned in tips varies greatly with the nature of the establishment, geographical location and the time of day. But above all, the amount of money received through tips depends on the generosity and goodwill of the customer.

And while some of that goodwill may be dependent on quality of service, many other factors such as physical attractiveness or a subservient demeanor, come into play. No one should have to curry favor to achieve a decent livelihood.

I would also like to add a few more dollars for the working poor should not be considered an inflationary danger while doctors, lawyers Members of Congress, and other professionals reap substantially higher incomes year after year.

The congressional pay raise was 12 percent. The average corporate pay raise is 20 percent.

And I would like to submit for the record a document from the New York Times on this subject.

And the minimum wage increase offered by this bill only calls for 15 percent.

The CHAIRMAN. Fine.

[The following was received for the record:]

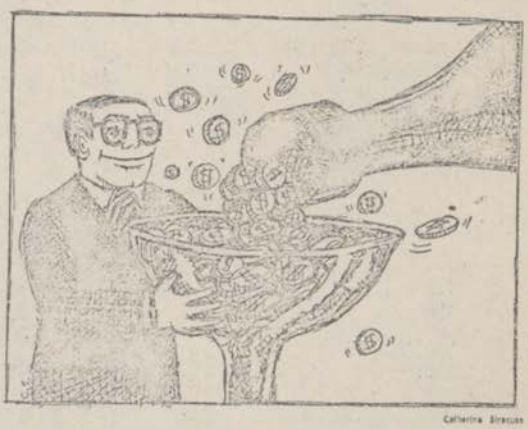
JUN 23 1977

June 19, 1977 THE NEW YORK TIMES, SUN

COMMENTARY

The Battle for Executive Pay

By GRAEF S. CRYSTAL



Catherine Breslin

Last year was a vintage year for executive pay. The average salary plus bonus earned by the three highest-paid executives in each of the 100 largest industrial companies increased about 20 percent over 1975.

A study showed that the average 1976 total compensation — excluding stock-option gains and other long-term incentive payouts—for the three top executives was $437,000, $321,000 and $260,000, respectively.

The large increases in average executive pay were caused, in part, by higher compensation for a good sales year in the auto industry. Median pay increases appear to have been about 15 percent—still a hefty figure, but less than the average 20 percent and significantly less than the average 29 percent increase in profits reported by the companies in the survey.

The current figures reflect the restoration of bonuses for 1976 that were either significantly lower or nonexistent in the previous two years as a result of poor profits in 1974 and 1975.

The study also showed that stock options remained the most popular long-term incentive. Some 86 of the 100 companies granted plans, and increasingly companies were offering stock appreciation rights in conjunction with their plans—45 companies offered these rights, compared with only 13 in 1973.

There was also a significant trend toward basing part of the executive's award on the attainment of established long-term business goals. The number of companies offering performance-related awards rose to 26.

Not all companies conveniently break down base salaries and bonuses. Therefore, it is not possible to discern precisely the increases in each component of total cash compensation. But it appears that base salaries increased by only about 8 percent—that is, at the same basic rate as salaries for nonexecutives. Thus, the 29 percent increase in corporate profits appears to have fueled the larger compensation numbers at the top of the organization chart.

But simple statistics can be misleading. What does it mean, for example, to say that the average chief executive officer's pay was $437,000 in 1976, when the pay of the 100 C. E. O.'s making up the sample ranged from $173,900 to $976,000?

Traditionally, pay analysts assume that differences of this magnitude can be explained by differences in company size. So, school and get a law degree. Then, quit and join another company. With zero length of service and that newly issued degree, he ought to be close to pay heaven. He shouldn't just pick any company. He should choose one that has a very high return on equity and, if possible, one that is a lot bigger than his present company.

Of course, an easier strategy may be for him to stay where he is and help increase the company's sales volume and return on equity. He will get more money for doing these good things, although he will lose some of it by virtue of having greater length of service. Still, if he is truly successful, he might even make it to the No. 1 position. But the boss has just discovered that the longer he holds his position the more money he will earn. He may not be too keen on handing over the reins.

Graef S. Crystal is vice president and director of Towers, Perrin, Forster & Crosby, executive compensation specialists.

Double-Digit Inflation Breaks Out in the Executive Suite

William S. Paley, CBS:
1975-$499,000.
1976-$500,577.

Irving S. Shapiro, du Pont:
1975-$248,000.
1976-$463,000.

Harold S. Geneen, I.T.T.:
1975-$776,000.
1976-$846,000.

Michel C. Bergerac, Revlon Inc.:
1975-$350,000.
1976-$592,567.

When the Government wages its perennial fights against inflation, one area always seems to escape the gladiators' attention—the compensation of top corporate officers.

As stockholders are learning from the proxy statements they are receiving as corporations gear up for this year's annual meeting season, the pay of top executives in many cases has been increasing by percentages in the high double digits.

In contrast the recent Steel Workers' settlement was held to 7 percent (if a 3 percent productivity gain is achieved), in part as a result of pressure from Washington for organized labor to be good citizens and hold the line on inflationary wage settlements.

"Executive salaries have gotten ridiculous—they just keep going up," said David Brown, an associate of Lewis D. Gilbert, the activist stockholder who often monitors executive compensation. The bonus, especially the cash bonus that's larger than the salary itself, is an increasingly popular way of getting a raise, Mr. Brown pointed out, for often it can be tied to a company's improved performance.

At the International Telephone and Telegraph Corporation, for example, Harold S. Geneen, the 67-year-old chairman and chief executive officer received a $425,000 bonus last year, after the $12-billion-a-year conglomerate's earnings rose almost 25 percent to $404.5 million. The bonus brought Mr. Geneen's total compensation to $846,000—that's $70,000 over 1975's $776,000.

Similarly, Michel C. Bergerac, the Revlon chief executive whom management consultants had dubbed a "bonus baby," when he received a $1.5 million cash award for joining the cosmetics concern as president in 1974, received another bonus last year as a reward for his role in lifting the company's earnings 20 percent. As a result, his compensation leapt 98 percent to $693,567, compared with the $350,000 straight salary he received in 1975. In addition he received $42,875 as reimbursement for moving and related expenses last year, after having received $66,172 for moving expenses in 1975.

The Chrysler Corporation the New York Times Company and E. T. du Pont de Nemours & Company likewise raised their top executives' compensation when corporate fortunes improved.

Chrysler, which had suffered a loss of $259.5 million in 1975 and, rebounded to $422.6 million into the black last year gave John J. Riccardo, chairman, a $445,000 bonus (there had been no Chrysler bonuses in 1975) and raised his salary by $20,000 to $216,000. E. A. Cafiero, president, received a $401,000 bonus, as well as his $219,000 salary.

The top two auto makers also enjoyed sales and earnings increases, and they rewarded their top executives as last Friday they rewarded their top executives as well. Henry Ford 2d, chairman of the Ford Motor Company received one of the highest salaries in auto history—$970,000, which is almost three times the $334,750 he was paid in 1975. And, not far behind, at General Motors, chairman Thomas A. Murphy's salary rose to $890,000 from $320,000 in 1975.

At The Times, where earnings jumped 75.6 percent to 122.3 million, Arthur Ochs Sulzberger, chairman, was given a $75,000 cash award on top of a $15,000 increase in his base pay, which had been $195,000 in 1975.

Du Pont, which experienced an 81.2 percent rise in earnings to $403 million last year, gave its chairman, Irving S. Shapiro, a $171,000 "cash incentive compensation," which brought his total pay up 84.5 percent to $427,702 from $248,000 in 1975.

Companies that have been active in the acquisition trail have looked inward, as well as outward. General Electric, which bought Utah International last December, paid its chairman, Reginald H. Jones, $628,000 for 1976, a 24 percent increase over the $500,000 he received in 1975.

And United Technologies, which acquired Otis Elevator, after a tender-offer battle, and is now bidding for Babcock & Wilcox, raised the compensation of its chairman, Harry J. Gray, to $630,000 up 14.2 percent from 1975's $500,000.

William S. Paley, the 76-year-old chairman and founder of CBS Inc. received a raise of 9.1 percent to $500,577 from $459,000 in 1975; earnings at the $2.3-billion-a-year entertainment conglomerate rose 33 percent to $184-million.

Furthermore, Mr. Paley is guaranteed at least half of last year's salary each year through 1987 for serving as a consultant to CBS when and if he retires. But if inflation should heat up again, Mr. Paley will be protected. His salary after retirement will be "adjusted yearly for increases in the cost of living index," the proxy statement disclosed.

Ms. HEAGSTEDT. For the people who will be most affected by the minimum wage, and indeed for all working men and women, a more equitable minimum wage is a critical issue.

Our future welfare depends on it, and on your favorable vote.

We strongly urge this bill's passage.

Thank you.

[The prepared statement of Ms. Smeal supplied for inclusion in the record follows:]

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Testimony of Eleanor Smeal
President
National Organization For Women
Before the Subcommittee on Labor of the
Senate Committee on Human Resources
Room 4232 Dirksen Senate Office Building
Wednesday, August 3, 1977 - 9:30 a.m.

I'm Eleanor Smeal, President of the National Organization for Women. With a membership of more than 60,000 women and men in all 50 states, we are dedicated to achieving full equality for women in all spheres of American life.

The most dramatic indication that minimum wage legislation is a women's issue is that an estimated two-thirds of all current minimum wage earners are women. These are the people who will most immediately benefit from the passage of S. 1871, as well as those who will suffer most severely from its defeat.

However, this is by no means the entire substance of our concern. As the percentage of women in the work force increases -- and as the chief concentrations of female workers continue to be in the lowest-paying occupations -- the established earnings floor will play a major role in determining the economic welfare of women in our society.

Last year, women comprised 41 percent of all workers. And most of those women worked, not for those old, mythological reasons of "earning a little pin money," but for the very real and immediate reasons of self-sustenance or family survival.

Of women in the work force, in March 1976, 24 percent were single, 19 percent were widowed, divorced or had absent husbands, and 24 percent had husbands with incomes less than $10,000.00.

One of every ten working women was the head of a family and usually its sole support. And as of 1975, one third of all families headed by women were living in poverty; for female-headed families with children under the age of 18, it was a distressing 44 percent.

It must furthermore be pointed out that the proposed minimum wage will not raise many of these women above the poverty level for more than a year -- assuming that the poverty line does not continue to rise. As of April of this year, the cutoff line for poverty program participation for a family of four was set at $5,850.00. This translates into $2.81 an hour. The initial hike from $2.30 to $2.65 will narrow the gap between the minimum income and poverty, by raising the gross annual salary from $4,784 to $5,512. However, not until the early 1980's will the minimum wage provide an alternative to poverty.

In addition to the general benefit of this bill to those at the bottom of the economic spectrum, there are at least two specific groups of women who stand to gain from the provisions of this bill.

The first is that of young women. As societal values change, there has been an astounding increase in the numbers of young women entering the labor market. More than 40 percent of women 16 and 17 years old are working at least part-time. For those between the ages of 18 and 19, the participation rate is at 59 percent, and 65 percent of all women between the ages of 20 and 24 are part of the labor market -- the highest participation group.

Again, as with the entire female population, necessity is the primary cause for seeking work. Forty percent of all women between ages 20 and 24 remain single. In addition, 37 percent of all women in this age group who have pre-school children also work. A substantial proportion of women under the age of 24, 36 percent year-round, work full-time. This compares rather well with the corresponding figure for men -- 44 percent.

These statistics make the suggestion of a subminimum wage for young people especially repugnant to women. A subminimum at 85 percent of the proposed $2.65 equals an hourly wage of $2.25 -- a shameful $90.00 gross per week, or $4,680.00 per year. To consign so many young women -- many of them with dependents -- to poverty even greater than their current lot, is for us, an untenable position. It is even more despicable, when we consider that the proponents of these slave wages are the same people who oppose federally financed daycare and malign the recipients of welfare.

The other group of women receiving special benefit from this bill is waitresses and other tipped employees. The tip credit amendment should do much to humanize the wage system under which tipped employees currently operate.

Currently, tip credit is set at 50 percent of the minimum wage of $1.15 an hour. This means that a tipped employee must receive more than $1.15 in tips per hour to exceed the minimum wage. As any of us who have waited tables and most of us who dine out know, the amount of money to

be earned in tips varies greatly with the nature of the establishment, geographical location and the time of day. But above all, the amount of money received through tips depends on the generosity and goodwill of the customer. And while some of that goodwill may be dependent on quality of service, many other factors such as physical attractiveness or a subservient demeanor, come into play. No one should have to curry favor to achieve a decent livelihood.

For these people -- indeed, for all working women and men -- a more equitable minimum wage is a critical issue. Our future welfare depends on it -- and on your favorable vote.

We strongly urge this bill's passage.

Thank you.

The CHAIRMAN. Thank you very much.

As I said, we will include that document containing the comparison of various categories and their increases.

Ms. HEAGSTEDT. It documents the 20-percent increase in salary of corporate employees, corporate executives.

The CHAIRMAN. OK.

I think that is most relevant in discussing the minimum wage.

Thank you.

Ms. GLADSTONE. I am Leslie Gladstone, of the Women's Equity Action League. WEAL, in existence since 1968, seeks to improve the social, legal, and economic status of all women, through education, legislation, and litigation. Among our goals is the equitable treatment and compensation for women who are employed, hence our presence here today.

In 1976, nearly half—or 47 percent—of all women over the age of 16 were in the labor force.

Approximately 39 percent—or 14.9 million of these women—had children under 18 years of age and 1 in 10 was the head of the family.

Yet, as Ellie Smeal's testimony indicates, the growth in numbers has not been accompanied by a comparable growth in earning power. Rather, the earnings gap between women and men continues to widen. In 1975, women employed full time, year round, had a median income of $7,504—only 59 percent of the $12,758 received by men. In 1956, we stood at 63 percent of men's earnings; in 1970 it was 59 percent. We have been running harder and harder to stand still.

It is estimated that there are between 3 and 4 million Americans currently earning the minimum wage. Approximately two-thirds of those workers are women.

One need only look at where in the work force women are concentrated, and how much they are characteristically paid, to understand how deeply we are affected by changes in the minimum wage.

More than 35 percent of all working women hold clerical jobs—for women under the age of 24 the figure is 45 percent. Another 18 percent are service workers, and 4 percent work in private households.

It should come as no surprise that 90 percent of the entire female work force is concentrated in 10 "female occupations"—and more than 90 percent of all workers in those job classifications are female. The list includes RN's; secretaries; calculating machine operators; stenographers; typists; dressmakers; seamstresses; sewers and stitchers; child care worker; hairdressers and cosmetologists; and LPN's.

Likewise, it should come as no surprise that 4 of these 10 job classifications also appear on the list of the 10 lowest paying jobs in the Nation—along with cooks, health aides, nurses' aides, and school monitors, which also have an average 81-percent concentration of women workers.

And what do women actually earn? In 1975, the average gross pay for saleswomen working full time, year round was an extravagant

$121 per week, for service workers it was $107, and clerical workers—bulk of employed women—earned an average $150 per week. In annual wages, this equals, for clerical workers, $7,795—63 percent of male earnings in comparable jobs; sales workers earned $6,273, or 40 percent of male earnings; and service workers, excluding private household workers, earned a dismal $5,570.

In other words, year-round service workers averaged barely more than the minimum wage, and roughly equated with the 1975 poverty line for a family of four. Fourteen percent of families headed by service workers and 54 percent of families headed by household workers were actually living in poverty in 1975. And almost all of them earned well below the Labor Department figures for an urban austerity budget—in fact, they earned just about half.

Thus, many women are faced with the resources for half a budget and the responsibility for a whole household. And for them, especially, the minimum wage package in S. 1871 is not a mere luxury, but a dire necessity. Sales and service workers and many part-time clerical workers will at least approach a living wage if this bill is enacted.

And for women, this is a consideration not just for the present, but also for the future. BNA recently reported on a study by Dr. Leonard Lecht, director of special projects research at the conference board. Lecht reported that—

> Social and psychological factors and the educational experiences that effect career aspirations have generally maintained existing employment patterns for women rather than changing them. As younger entrants largely continue to find employment in the "female fields," they increase the likelihood that similar concentrations of employment for women will characterize the next decade.
>
> A steady supply of women focusing their job searches in the fields which have traditionally employed them assures the availability of large numbers of job applicants and encourages low earnings.

Thus, while women will continue to struggle toward employment in higher paying fields, it is clear that at least for the immediate future, most women will actually be employed at the lowest rungs of the economic ladder, where they will in all likelihood continue to do less well than their male counterparts.

To extend some measure of economic security to these low-wage workers, we urge you to pass the legislation before you. We support not only the minimum wage increase, but also the indexing mechanism, which will prevent low-income workers from continually falling below the standard of living. By tying minimum wages to prevailing wages, we may be able to provide some measure of security to workingmen and workingwomen whose economic survival has been tenuous.

We think the provisions of this legislation merit not only your attention, but also your wholehearted support.

Thank you.

The CHAIRMAN. Thank you.

[The prepared statement of Ms. Gladstone follows:]

Testimony of Leslie Gladstone
Women's Equity Action League
Before the Subcommittee on Labor of the
Senate Committee on Human Resources
Room 4232, Dirksen Senate Office Building
Wednesday, August 3, 1977 - 9:30 A.M.

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It should come as no surprise that 90 percent of the entire female workforce is concentrated in ten "female occupations" - and more than 90 percent of all workers in those job classifications are female. The list includes RN's; secretaries; calculating machine operators; stenographers; typists; dressmakers; seamstresses; sewers and stichers; childcare workers; hairdressers and cosmetologists; and LPN's.

Likewise, it should come as no surprise that four of these ten job classifications also appear on the list of the ten lowest paying jobs in the nation - along with cooks, health aides, nurses aides and school monitors, which also have an average 81 percent concentration of women workers.

And what do women actually earn? In 1975, the average gross pay for sales women working full-time, year round was an extravagant $121.00 per week, for service workers it was $107.00 and clerical workers - bulk of employed women - earned an average $150.00 per week. In annual wages, this equals, for clerical workers, $7,795.00 - 63 percent of male earnings in comparable jobs; sales workers earned $6,273.00 or 40 percent of male earnings, and service workers, excluding private household workers, earned a dismal $5,570.00.

In other words, year round service workers averaged barely more than the minimum wage, and roughly equated with the 1975 poverty line for a family of four. Fourteen percent of families headed by service workers and 54 percent of families headed by household workers were actually living in poverty in 1975. And almost all of them earned well below the

Labor Department figures for an urban austerity budget - in fact, they earned just about half.

Thus, many women are faced with the resources for half a budget and the responsibility for a whole household. And for them especially, the minimum wage package in S. 1871 is not a mere luxury, but a dire necessity. Sales and service workers and many part-time clerical workers will at least approach a living wage if this bill is enacted.

And for women, this is a consideration not just for the present, but also for the future. BNA recently reported on a study by Dr. Leonard Lecht, Director of special projects research at the Conference Board. Lecht reported that "social and psychological factors and the educational experiences that effect career aspirations have generally maintained existing employm nt patterns for women rather than changing them. As younger entrants largely continue to find employment in the 'female fields' they increase the likelihood that similar concentrations of employment for women will characterize the next decade.

"A steady supply of women focusing their job searches in the fields which have traditionally employed them assures the availability of large numbers of job applicants and encourages low earnings," the study concludes.

Thus, while women will continue to struggle toward employment in higher-paying fields, it is clear that at least for the immediate future, most women will actually be employed at the lowest rungs of the economic ladder, where they will in all likelihood continue to do less well than their male counterparts.

To extend some measure of economic security to these low-wage workers, we urge you to pass the legislation before you. We support not only the minimum wage increase, but also the indexing mechanism, which will prevent

low-income workers from continually falling below the standard of living. By tying minimum wages to prevailing wages, we may be able to provide some measure of security to working men and women whose economic survival has been tenuous.

We think the provisions of this legislation merit not only your attention, but also your wholehearted support.

Thank you.

Now, you, Ms. Carter, may proceed.

Ms. CARTER. My name is Marialice Carter, and I am here representing the National Women's Political Caucus.

Our multipartisan membership, now exceeding 35,000, is dedicated to, one, the increased participation of women in the political process, especially in elective and decisionmaking roles, and, two, the passage of legislation beneficial to women.

It is, from where we sit, indisputable that a higher minimum wage, appropriately correlated to the national standard of living—represented in H.R. 3744 by percentage of the average manufacturing wage—is not only of benefit to women but vitally needed.

My colleagues on the panel have presented you with a myriad of supporting statistics; let me present just one or two more. In 1974, slightly more than one-half—53 percent—of all year-round, full-time women workers earned less than $7,000, while four-fifths—81.6 percent of all men earned more than $7,000.

Furthermore, about one-third of all women who worked in 1974 worked part time, compared to only one-eighth of all workingmen. A vast majority of part-time workers are employed in marginal, low-skilled jobs without job security, fringe benefits, or opportunity for advancement—and most of them work at the minimum wage.

And, finally, this dismal statistic: The annual median income of household workers, 61 percent of whom are black and almost all of whom are female, is $2,676.

Although we feel that both the initial increase in the minimum wage and the percentage of the manufacturing wage to which future adjustments are tied, are only marginally adequate in this bill, we strongly favor the institution of an automatic adjustment. This gradual approach to keeping the wage floor consonant with general economic trends should benefit both the minimum wage earner and the economy. For the employee, it means that whatever extraordinary measures he or she may take to exceed a marginal standard of living in the year of a minimum wage hike, will not be eaten away in the succeeding years, until Congress once more considers the question. It gives the low wage worker not a good, but at least a fighting chance, of achieving nonpoverty status.

In addition, the effect of minimum wage increase on inflation, in itself a dubious threat, should be substantially less with gradual increases than with sudden jumps—especially since with indexing—the minimum wage is following the standard of living, not setting it.

And as I have suggested, the evidence that minimum wage increases have an adverse impact on inflation is not clearly established. Secretary of Labor Wirtz reported to Congress in 1969:

> The increases in the minimum wage required by the 1966 amendments became effective during the period of rising prices. That the minimum wage had little influence on this trend is evidenced by comparing the price movement during the first 6 months of 1966, before the 1966 amendments went into effect, with the trend in the first 6 months of 1967 and 1968, when the first two phases of the amendments became effective. The Consumer Price Index increased 1.7 percent in the first half of 1966 as compared with 1.1 percent in the corresponding period of 1967 and 1.9 percent in that of 1968. Wholesale prices of industrial commodities advanced significantly less in the first half of 1967 and 1968 (0.2 percent and 0.9 percent) than in 1966 (1.4 percent) * * *

Succeeding Secretaries of Labor and other reports have shown a similar lack of economic disruption following minimum wage in-

creases. Mostly, minimum wage hikes appear to do exactly what they're meant to do—extend some measure of economic relief to those workers on the bottom rung of the ladder.

There are other provisions of this bill deserving mention. We applaud those sections which will bring the working hours in certain agricultural and hotel, motel, and restaurant workers into line with the 40-hour week.

We also strongly favor the change in tip credit, since the current credit of 50 percent of the minimum wage, makes it difficult for many workers in smaller establishments to rise beyond a very marginal economic existence. We are singularly unimpressed by the conclusions espoused by the "Study on Minimum Wage Legislation and Employment," by Brimmer & Co., which is currently making the legislative rounds.

The study includes a California survey by the National Restaurant Association which claims that elimination of tipped credit in the FLSA will lead to fewer restaurant jobs and higher food prices.

The obvious bias of the survey client notwithstanding, the questionnaire was sent to a hopelessly unrepresentative sampling. However, in California, both the elimination of tip credit and an increase in employer paid wages did not have these threatened consequences. The number of jobs in the food service industry increased, new restaurants continued to open and no substantial increase in restaurant prices was attributed to the change in wage structure.

Finally, we wish to register our opposition to any amendment proposing a subminimum wage for young workers. We clearly need more jobs for young people, but this is also clearly not the way to create them. Providing jobs for youth at the expense of jobs for marginal adult wage earners is demeaning to both. There is no evidence that young people are guilty of "unequal work," hence no employer should be permitted to provide "unequal pay." The overwhelming number of young people, like adults, work out of necessity, not for kicks.

Because H.R. 3744 takes some steps in the direction of greater economic equity in this society, it deserves your support. We will be watching your votes on this bill with great interest, as a measure of whether you deserve our support.

Although that is the conclusion of my prepared statement, I would like to add a few remarks on my own behalf.

I came here today with a fairly open mind, as I am sure everyone did. And I sat here and listened to the many arguments made for and against this piece of legislation.

I want to tell you a little about my personal background because I think that my experiences have served to enlighten me to an extent which I feel others in this room today have not been so enlightened.

I am a small business person. I have one partner and I hope to expand my business to include six or seven people by January 1.

I don't care what the minimum wage becomes: I will pay it. It makes no difference to me what it is because I feel that as a member of a democratic society, we all have the responsibility to support one another economically and morally.

I feel that we who are educated and have had the advantages, we need to step down and give of our own to those who have less.

And what has appalled me most about some of the negative comments on the legislation which is pending has been that this has been

dealt with, I feel, to a large extent as an issue which is going to affect the economy of this country in a negative way.

I have never heard so much emphasis placed on an issue which is so clearly one of moral magnitude, Mr. Chairman, in my entire life.

I represent a segment of the population which is the lowest paid and the least desirable jobs—and it is not even because they are uneducated. It is because we are victims of sex and race discrimination.

It is because even though we might have the skills, we cannot get to the jobs because we are black. And as women, we don't get jobs that are given to men.

So we do suffer a double form of discrimination, despite the fact that there are token black women who serve in very significant positions in our society.

Another thing I want to express is that I have spent 10 years in Government as an attorney. I worked for the Department of Justice in the Civil Rights Division, and I worked at EEOC for the Chairman, and I have worked on the task force on reorganization of the Office of Federal Contract Compliance Programs.

And I am very much aware of the position that employers take when it comes to whether or not they are meeting their standards of equal employment opportunity.

It has very rarely been the case that anyone has said that their real problem in life is that they cannot pay their workers the minimum wage.

That is very rarely the case.

The other thing I would like to say before I conclude is that I am tremendously shocked that people would talk about a youth subminimum wage. And I am shocked for the main reason—and I think the people here ought to stand corrected—that people who are over 16 in this country are not kids and they are not children.

They know they cannot be. If they are minority youths, if they are poor white youths, and unemployed, they are not children. They happen to be young adults.

We all know that unemployment is highest among minority females, the teenagers in this country.

And I don't understand why we don't know how many of those individuals are supporting families.

To say that you are going to allow an individual the opportunity to work for a subminimum wage when the responsibilities they carry are greater than the average individual's in this society, it reaches almost absurdity.

And with that, I would like to conclude before I say more than I should.

Thank you.

The CHAIRMAN. Excellent.

I am glad you did add the supplemental remarks and observations.

You all commented on the tip credit and you support the provisions that we have that would gradually eliminate the tip credit.

I am told we are going to have before us some people who work in occupations where part of their present wages are tips, for instance, waitresses, and they are in opposition to our provision.

I am not sure why they are opposed.

I wonder if any of you have any personal knowledge of the industries where tipping is part of the compensation?

Would any of you like to address yourself to that?

I cannot understand how waitresses would oppose what we are doing here.

Do you have any personal feelings about this?

I know, in principle, you are opposed to the tip credit, but do you have any personal background in it?

Have you ever talked to any waitresses about this?

Ms. HEAGSTEDT. I would say that waitresses, as opposed to waiters, tend to be working at restaurants which would have a lower price for food.

If you go into a fancy restaurant, the chances are you will have a waiter. If you go into a truckstop, for example, the chances are you will have a waitress.

And everyone knows that tips at different geographic locations, at truckstops, for instance, are much less than they would be at a higher paid restaurant.

So I think that the fact that tips at the higher paid restaurant might be adequate for those tipped employees and the fact that they don't feel they need the elimination of the tip credit, does not take into account the waitresses who work in the lower-paid restaurants, in the truckstops.

And those who suffer most from the tip credit are these women in these less fancy restaurants; these restaurants which have a high turnover because they pay the waitresses so little, and so forth.

Ms. CARTER. I think there is another point to be added.

This is from my own personal experience, having worked at the Women's Bureau at the U.S. Department of Labor.

We were the dumping ground for any letter that had anything to do with women and that nobody wanted to answer. And a great number of those letters were from poor women—and, in fact, I became a feminist as a result of working in the Women's Bureau and finding out the serious problems of these poor white women and poor black women.

At any rate, getting back to the tip business, the point is that there has never been enforcement of a lot of the provisions of our laws—including someone checking up on whether or not these tips are, in fact, being included or excluded, whether or not the 50 percent is being met or not met.

I think it would be an absolute requirement for this committee to look for those individuals—and they exist in large numbers although maybe not probably in Metropolitan Washington, but I would venture to say that maybe they do exist there too—where the requirements, as already established, are not being met. And even where they are, the only thing that occurs is that the individual is allowed to make the minimum wage.

I mean, if having the tip credit allows you to make the minimum wage, then I don't really see it as being a tremendous advantage to either group. So I think it is very important that you get a good perspective and look for those lower paid people who may not even be getting what they are required to get under the present situation. And

I think it is important you then come up with some mechanism for greater enforcement or some way of actually putting this thing into effect and making it have some meaning.

Ms. MILLER. I think there is one other element that is important. When you say people were opposed—and it was suggested that these are higher tipped waitresses and waiters and in higher cost establishments—but the other thing that people have talked to me about is the lack of dignity.

I mean, people are becoming aware now of the whole sex problems that we have faced and the whole attitude toward the women's problem. So that my point is, the women want to be treated in a way so that they do not have to "flaunt their favors" in order to get a bigger tip.

They feel there is an indignity to this kind of thing. And that also ought to be a part of the thinking in terms of this problem, the whole question of tipping.

Ms. GLADSTONE. Elimination of the tip credit would essentially place a floor on the wage that a waitress or a waiter would earn.

Now, they may not earn the minimum wage, you know, if they don't receive any tips. And this is to some extent outside of their control.

If the proprietor of an establishment is not running an establishment that attracts enough customers on a regular hour basis, they may not have the opportunity to earn the minimum wage. And this would, at least, insure they earn the minimum wage. And I think this is the least we can do.

The CHAIRMAN. Well, the law does require it, but you say they might not be getting it?

Ms. GLADSTONE. The employer does not always pay back the difference that they earn in tips. I think this has been well documented.

Ms. HEAGSTEDT. I would like to add one more thing.

I think that the tipper—and I have worked as a tipped employee and it is difficult to do. And I must admit I did not last long. I was not making very much.

I think it is important to remember a tip is meant to be a gratuity to your service, and not part of your wage. So there is a basic philosophical difference there.

And if that is part of the wage, then that should be the employer's responsibility. If it is part of the gratuity, that the people tip on the kind of service they get—well, it is very often out of the control of the person doing the serving.

The waitress might bring cold food and people will say, "What kind of service is this; I am not going to tip," but yet the fact that the food was cold was completely beyond the waitress' or waiter's control.

And for that reason, that kind of wage should be the responsibility of the employer and not the customer, and if the customer feels that they have good service, that tip then rightfully goes to the service they were given by the employee.

The CHAIRMAN. You know, I have heard along these lines that some people who are in the position to serve the customer and get a tip, they, in turn, tip those who do prepare the food back in the kitchen, so that they will get hot food.

Ms. HEAGSTEDT. That is very true.

Certainly if we can break the barrier here and get us on our way to reducing this, we will bring new dignity into this area. And I guess the practice would be that if you really appreciated the personal service, you can still tip. I mean, there is not going to be anything in the law against tipping for what we thought used to be what the tip was all about—namely, for that particular service that pleased you.

Ms. HEAGSTEDT. As Marialice stated earlier, there are nine States that have eliminated the tip credit already. And the State of Utah, I understand, Mr. Chairman, has a separate minimum wage law which is applicable only to women and minorities—no, women and minors. And there is a specified tip credit in that law, which only applies to women and minors.

The CHARMAN. How does that work out? Are you familiar with it? What State is that? Did you say Utah?

Ms. HEAGSTEDT. It is just for Utah.

The CHAIRMAN. Just Utah?

Ms. HEAGSTEDT. Yes. Utah has a separate provision just for women and minors, but there are nine States that have eliminated the tip credit.

The CHAIRMAN. Well, that perhaps explains some of the things that happen around here—I mean, that Utah is the only State that has that. Anyway, I didn't know that. That is new information.

Ms. CARTER. Well, there are a couple of points. I just wanted to say something quickly about the whole dignity principle. I think the Supreme Court spoke to this issue of dignity in certain professions that have been traditionally female, Mr. Chairman, when it rendered the decision in the case of the airline hostesses, whose sole responsibility is to see that you have a safe trip and not to see that you have a free feel on the flight.

And I think it is very important that we look at the basis of that Supreme Court decision because I think it was very important in establishing that just as in restaurants, the waiter or waitress is there to bring you your food and not necessarily to cater to eccentricities, that the same should apply throughout the employment situation.

There should not be certain expectations of an employee because she is a female as opposed to she is an employee.

And in terms of that Utah legislation, to me that is just one piece of protective legislation which, as we all know, protective legislation has the effect of discriminating against the individual.

That argument is clearly established by the Supreme Court.

The CHAIRMAN. Your business, Ms. Carter, is a law practice?

Ms. CARTER. I am associated with a law firm, but I have a business which is a business consultancy and what we do is we provide services to people who have not been counseled on how to manage their own personal financial affairs and that includes teaching people how to do their own tax returns and so forth.

We are trying to get funding now to do it on a non-Government basis.

The CHAIRMAN. Thank you all very, very much.

Now, speaking for the Farm Workers: Mack Lyons, Luis Jaramillo and Burton Fretz.

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STATEMENT OF MACK LYONS, MEMBER OF THE BOARD OF DIRECTORS, UNITED FARM WORKERS, AND LUIS JARAMILLO, COLORADO MIGRANT COUNCIL, ACCOMPANIED BY BURTON FRETZ, MIGRANT ACTION PROGRAM

Mr. LYONS. Thank you, Mr. Chairman.

The CHAIRMAN. Well, we welcome you.

Mr. LYONS. I would like to thank you, Senator, for allowing us to testify before your committee.

My name is Mack Lyons, and I am director of the Legislative Department of the United Farm Workers of America, AFL-CIO. The national headquarters of my union is located in Keene, Calif. I am here to say a few words for the lowest income group of American workers—those who work for wages in agriculture. While some slight progress has recently been made in alleviating the plight of farmworkers, by any measure, this group continues to be the most degraded and impoverished within the American labor force.

While the typical farmworker is so essential to commercial agriculture, underpay and underemployment are the facts of life. Most are forced to supplement inadequate farm earnings with unemployment insurance, when available, and welfare. Others live on marginal farms and "hire out" when jobs become available.

But, underemployment is only one factor contributing to the hardship of farmworkers. Even when they work, farmworkers are among the lowest paid workers in the Nation.

The inclusion of farmworkers under the Fair Labor Standards Act is a major factor in improving our welfare, although coverage affects only about 3 percent of American farms—the largest ones—and includes about 45 percent of hired farmworkers.

Raising the minimum wage of covered farmworkers to $2.65 will increase the earnings of almost one-third of the 640,000 farmworkers now subject to the Federal minimum wage law—according to the U.S. Department of Labor.

This increase in the minimum, if effective January 1, 1978, will increase the incomes of 196,000 farmworkers during the course of next year. This increase, however, will equal less than fifteen one-hundredths of 1 percent of the $90 billion received in cash receipts from farm marketings last year. Moreover, the increase for farmworkers next year would be equal to only five one-hundredths of 1 percent of the $230 billion annual food expenditure of the American people.

Thus, the cost of this increase in the minimum wage for farmworkers would be insignificant to the ultimate price consumers pay for food and fiber.

But, even if it were significant, it is a cost that Americans with a sense of decency and compassion will surely choose to bear.

In addition, improving the very low earnings of farmworkers can hardly be viewed as a menacing threat to the costs of the family owned and operated farm. Quite the opposite. The ability of a minority of our farms—generally the largest and most profitable ones—to operate low-wage sweatshops is a direct threat to the well-being of the family farmer who must compete against these large factories in the fields. The truth of the matter is that when hired farmworkers are degraded,

inevitably that condition lowers the value of the labor of the farm family, and as a consequence, this family's income.

It is for this reason that the National Farmers Union—an organization comprised of independent farmers devoted to the family farm—has been in support of a fair minimum wage for farmworkers. This also is true of other right-thinking Americans—both those engaged in agriculture and those who are not.

We cannot anticipate how many farmworkers will be needed 10 years from now as agriculture increasingly becomes more mechanized. But we of the United Farm Workers of America and the entire AFL–CIO are resolved that whatever the number, American farmworkers have a right to as good a life as any other worker in America. I hope and trust that the Members of the Congress of the United States share that belief.

We of the United Farm Workers of America urge you to enact S. 1871 and to do so with no exemptions for any group now covered by the law.

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

And, you know, that is our mission. It is not an easy goal. Were you here during the earlier testimony?

Mr. LYONS. I heard some of the testimony this morning.

The CHAIRMAN. Were you here when Senator Hayakawa made his observations to the other witnesses?

Mr. LYONS. I just missed him, but it was echoed out in the hall.

The CHAIRMAN. I would like to get into a couple of the things he raised, and you will be able to make some observations, I think, in that regard.

Now, we will go to the next witness.

Mr. JARAMILLO. Allow me to extend my appreciation to you for this opportunity to address this forum on this topic of wage and hour conditions as they presently affect farm workers in the State of Colorado.

I hope it serves a useful purpose in your consideration of S. 1871, the Fair Labor Standards Act.

As a result of many factors, primarily among the western drought situation, migrant and seasonal farm workers are suffering hardship and exploitation such as was suffered only during the Dust Bowl era, and the Great Depression of the thirties. Then, as now, there were no adequate safeguards which serve to preserve or protect decent standards and liveable wage standards for American agricultural workers.

As of this date, the State of Colorado seeks to determine whether farmworkers in that State are covered by State minimum wage laws.

No doubt it will be suggested to you in the course of these hearings that all or part of the agricultural industry be exempted from the minimum wage law.

I think it deplorable and unconscionable that this be suggested and that America's agricultural workers, who are the life blood of our food production system, be denied the assurance and protection of the minimum wage laws which protect workers who contribute less to the health and welfare of this country.

In Colorado we are aware that the average earnings for a farm worker's family of 4.3 members is about $3,000 per year.

Approximately 78 percent of those farm workers in Colorado are migrant farm workers who are rarely reimbursed for housing and travel expenditures they incur.

Due to ineffective enforcement by State and Federal agencies and moreover due to the inadequacy of minimum wage provisions, farm workers are reluctant to leave that job sector and are joining the unemployment population of the urban centers.

Two causes contribute to this: One, drought conditions have meant a sharp decline in available work, and two, wages are deplorable.

Typical wage and hour grievances we have encountered this summer include the following:

In Adams County, Colo., a family of four contracted to pick pickles at the rate of $2.15 per 100 pounds. Last year the rate was $2.50 per 100 pounds. This family of four worked from 10 a.m. to 6:15 p.m. and was paid $6.62 for 700 pounds of pickles.

They should have received $15.05. Had they been paid the agreed rate, they would have earned $3.76 per family member.

They are now suing because they received pay which actually amounted to about 21 cents per hour.

Another case, Mrs. Quintero, mother of four daughters, a migrant family from Texas, complained that she and her daughters had worked from 7 a.m. to 12 noon. When computed, her family's pay averaged 34 cents per hour.

She does not intend to spend another year in agricultural work.

Another case: In Otero County cases are being received by Colorado Rural Legal Services for nonpayment of wages. Even if paid, many of these wages would amount to about $1.40 per hour.

Worst of all, many farmworkers already engaged in doing agricultural work are being fired because farmers, growers, and crew leaders are finding cheaper labor.

In Weld County, five farmworkers came from Texas to do a specific job but were not allowed to finish because the employer had found cheaper labor; namely, undocumented workers.

Another family from Texas was contracted to hoe and pick sugar beets.

They lost their job after partial performance, again because cheaper labor had been found.

In Logan County there were two cases identified where families traveled from Texas, began the work, and were fired because cheaper labor was found.

At least one undocumented worker has acquired legal counsel to sue for $800 worth of work. He knows the consequences are deportation.

In Prowers County, Weld County, Otero County, and Morgan County, many families and individual workers are being refused payment of wages due, and particularly undocumented workers are being paid with phony checks.

As a matter of practice, the larger the farm, the greater the tendency is for the farmer or grower to have little to do with the hiring and recruitment of farm labor. This task is increasingly being delegated by contract to the crew leader or labor merchant, who literally controls the job market. Nominally responsible for hiring and recruiting, he is also responsible to pay social security taxes, make tax deductions, and pay laborers.

By and large the crew leader is the entity most often responsible for the exploitation of the type I have just described.

Farmworkers who complain do so at their own risk. Such risks include loss of job, eviction from houses, threats, intimidations, blacklisting, and actual physical violence.

If the farmworker is undocumented or cannot prove citizenship, the prevailing practice is call the Immigration and Naturalization Service. The only certainty is loss of job and/or deportation.

Be mindful that the vast majority of farmworkers in Colorado are migratory. Thus, enforcement of wage rights often required that citizens of other States sue in Colorado.

Be mindful, also, that many crew leaders are also migratory.

In closing, I ask you to consider the following recommendations: First, the Fair Labor Standards Act should include agricultural employers who utilize at least 100 man-days.

Second, farmers and growers who might be subject to the law, but who employ crew leaders to do the recruiting and hiring of labor, should be required by law to report this labor practice.

Three, due to the migratory nature of the agricultural labor system, and particularly because of the crew leader systems, special regulatory measures are essential to extend effective coverage to farmworkers.

Absent concerted affirmative steps to include priority emphasis on wage and hour enforcement in the industry by wage and hour and crew leader registration agencies, the law will continue to be frustrated.

Four, because all able-bodied members of the farmworker family must contribute their earnings to the family unit, farmworker youth should be excluded from any provision which lowers their minimum wage coverage based on age.

Five, finally I urge you to include all agricultural labor under the minimum wage laws.

Thank you.

The CHAIRMAN. Thank you very much.

Let me ask you about some of the examples that you cited. Were those examples on farms where the magnitude is such that the farms were covered under the minimum wage?

For instance, the family that worked from 10 o'clock until 6 picking the pickles and were paid $6.20? Were they covered? Was that farm covered because of the amount of employment of farmworkers there?

Mr. JARAMILLO. Well, in that particular case what you have is a crew leader who short-circuits that system so that the actual farmer or grower is not responsible for the payment of wages.

That is to say, he will contract out the farmwork to be done, Mr. Chairman, to the crew leader.

The CHAIRMAN. Well, under the law who is covered? Who is responsible under the law for the payment of the minimum wage?

Mr. JARAMILLO. Well, probably the crew leader.

The CHAIRMAN. Are you a lawyer?

Mr. FRETZ. Yes, Mr. Chairman.

My understanding is that the Department of Labor in its published regulations has supplied a list of indices to be applied ad hoc for a determination of who is responsible, Mr. Chairman, as to the employer.

One such index is who bears the economic risk; another is, who does the supervising; another is, who does the hiring and firing.

And, unfortunately, the use of that sort of reasoning ad hoc, Mr. Chairman, makes it very difficult to determine in many cases exactly who is responsible, and responsibility is shifted between the crew leader and the employer.

The CHAIRMAN. So somebody is responsible, but it is so confused so that the responsibility falls between the cracks; is that right?

Mr. FRETZ. That is exactly the problem, Mr. Chairman.

The CHAIRMAN. And it is a matter of enforcement in many cases?

Mr. JARAMILLO. That is right, sir.

And you cannot enforce the wage rights of 50,000 workers in the State of Colorado with 3 people to do that.

The Chairman. I see.

Did you mention that before?

I must have missed that.

Mr. JARAMILLO. No, sir, but that is part of the problem.

The CHAIRMAN. The Department has two.

Mr. JARAMILLO. The State of Colorado has two wage and hour enforcement officers.

The CHAIRMAN. It is Federal.

Mr. JARAMILLO. Yes, sir.

At the Federal level there are three enforcement officers.

And you see them about once a year.

The CHAIRMAN. I get the picture. The State of Colorado is an immense area, too?

Mr. JARAMILLO. Yes, sir.

The CHAIRMAN. I was going to come back to you, Mr. Lyons, and to some of the observations made by Senator Hayakawa.

He described a lot of the fruits and vegetables that have gone out of production in California, and the reason he cited was the high cost of labor.

I better check that, though.

Staff, was it solely that reason?

He also indicated the importation and the low wages offshore in other countries and the high wages in California, and all these things have caused white asparagus to be no longer grown in California.

And I recall white asparagus used to be a commodity, a product that we could buy in California.

Are you familiar with some of these specifics?

Senator Hayakawa mentioned the drying of apricots, et cetera.

Have they gone out of business?

Have the farmers gone out of business in that area altogether?

Mr. LYONS. It just so happens that I was involved with this.

As a matter of fact, I am negotiating with an asparagus grower in California right now——

The CHAIRMAN. White or green?

Mr. LYONS. He is a green asparagus grower.

I have never eaten or seen a stalk of white asparagus in my life.

The CHAIRMAN. And you have spent a lot of your time in California?

Mr. LYONS. I spent about 8 years in California but I have been a farmworker all my life.

I have cut asparagus and I know a lot of workers who have worked in asparagus.

And I have negotiated with two companies recently, that grow green asparagus.

And I have had a lot of conversations with those companies over the past few months about the asparagus market. And at no time did those companies say that labor was forcing them out of the market.

As a matter of fact, one company was talking about how good the asparagus market was and that he was talking in terms of signing a contract.

This was before the season started last year. He was talking about the very good asparagus market and he was going to work more hours in the day, you know, so that he could harvest his crop properly.

But I have never seen white asparagus.

And in terms of being priced out of the market, I think this is a question of giving one human being the same opportunity that you give another human being—and that is the right to earn a decent living and not expecting one human being to supplement another human being.

The CHAIRMAN. Let me ask you what kind of wage you were talking about in these contract negotiations?

Mr. LYONS. Our proposal for this particular company—well, it so happens that we settled the wage issue and we settled on $3.15 an hour.

The CHAIRMAN. In California?

Mr. LYONS. In this particular area and with this company, yes.

But we are negotiating wages between $3.10 an hour up to $3.50. It varies according to the area and according to who we negotiate with.

The CHAIRMAN. Do you negotiate in other areas beyond California?

Mr. LYONS. I have negotiated with a company in Florida where we have negotiated a wage at $2.75 an hour. That was 2 years ago.

The CHAIRMAN. Did you get a contract?

Was that 2 years ago, you say?

Mr. LYONS. 1975.

The CHAIRMAN. Did you get a contract?

Mr. LYONS. Yes.

The CHAIRMAN. For how long a period was the contract?

Mr. LYONS. It was a 3-year contract with a 10-cent-an-hour annual increase.

The CHAIRMAN. What was the product?

Mr. LYONS. Citrus.

The CHAIRMAN. Now, Senator Hayakawa mentioned some other products that were going out of production in California.

I did not hear the entire list, but one he was talking about was dried apricots.

Did you hear that?

Mr. LYONS. We have one apricot grower that I am negotiating with also, Senator, as far as completing a contract.

We have not gotten to the issue of wages, but this particular grower by no means is going out of business. As a matter of fact, they have good years; it seems like every year is better than the next.

The CHAIRMAN. What I would like to do, if I could, is get your address so that we can reach you.

I would like, when the record is printed, to go back over Senator Hayakawa's comments. I want to make sure that I have not misstated anything that he said.

You are the representative of the people who are out in the fields. So you must know agriculture in California?

Mr. LYONS. I have worked there since 1964.

I have worked in the fields for 3 years before starting work full time at the Farm Workers' Union. There I have worked for the Farm Workers in California and Florida.

Prior to that—I am a farmworker myself and was born in Texas on a farm. And I have worked in a variety of crops, and I have been in contact with workers that have worked in many, many crops.

The CHAIRMAN. And you are still involved?

Mr. LYONS. I am still very much involved.

As a matter of fact, one of my responsibilities is to find out as much about a crop as is possible in order to negotiate a contract.

The CHAIRMAN. Excellent.

Well, you come to us with a high reputation of excellence in your field. We know that.

Mr. LYONS. Thank you.

The CHAIRMAN. We know that you are a leader and contribute greatly in your representative capacity. I don't think we ever met with you before?

Mr. LYONS. No; you have not.

The CHAIRMAN. Well, at any rate, your reputation is excellent.

And that is not to indicate anything about you other fellows. It just so happens we have heard of Mr. Lyons' reputation.

Now, I will get back the record and we will send you a copy, and if you could make your observations on these, include your comments and return them to us, we would appreciate it.

Mr. LYONS. Certainly.

The CHAIRMAN. Certainly I am sure that Senator Hayakawa, who is otherwise occupied and could not be here this afternoon, will appreciate that.

You are one of his constituents, correct?

You live in California now?

Mr. LYONS. Sure.

The CHAIRMAN. It is not that you have to be a constituent to get the attention of a Member, but it is always nice to have a constituent, if you know what I mean.

Thank you very much.

We greatly appreciate it.

I know you all had long journeys, but your testimony will advance the cause greatly. We are most appreciative.

Did you have anything further?

Mr. FRETZ. Mr. Chairman, if I may just offer something in further response to Senator Hayakawa's expressed concern?

I do think it is vital for us to keep in mind the low cost of harvest labor relative to the retail cost of most fruits and vegetables.

Senator Nelson's Subcommittee on Migratory Labor a few years back did such a study and published it, and it concluded that the actual labor costs of picking lettuce, celery, citrus fruits, raisins, carrots, and so forth constituted about 3 to 5 percent of the total retail cost.

As I say, I think those figures are about 6 years old, although we have every reason to believe that they are still valid.

That would suggest that an increase in agricultural harvest labor cost of, say, 20 percent, Mr. Chairman, would nonetheless, produce a miniscule increase in the overall retail cost of fruit or vegetables.

We also suggest that any decision to shift the area of production of things like white asparagus may be based on a myriad of complex other economic factors—other than simply labor.

[The prepared statement of Mr. Fretz follows:]

Before the Subcommittee on Labor,
Committee on Human Resources,
United States Senate

Hearings on S.1871 (Minimum Wage)

Testimony of the Migrant Legal Action Program, Inc.

Burton D. Fretz
John R. Johnson

806 15th Street, N.W.
Suite 806
Washington, D.C. 20005
202/347-5100

We appreciate the opportunity to appear before this Subcommittee to discuss S.1871 and farm labor coverage under the Fair Labor Standards Act.

The nation's farmworkers are among the hardest working and least secure of all employed persons. Yet the Fair Labor Standards Act at its inception forty years ago excluded farmworkers from all of its protections. In 1966, minimum wage coverage was extended narrowly to employees of agribusiness concerns, but at a lower level than that of other industries; the 1974 Amendments reduced this wage differential gradually until its elimination effective January 1, 1978. Resurrecting a wage differential at this historic hour, therefore, would turn the clock back by a decade.

Agribusiness Coverage. The Act now extends minimum wage protection only to employees of those growers using more than 500 man-days of agricultural labor in a calendar quarter. With few exceptions, this coverage applies only to large agribusiness concentrations. The most recently published Department of Labor statistics indicate that the Act covers less than one per cent of the nation's almost three million farms although it covers 48% of the nation's hired farmworkers. 1/

Employee -- Size of Farm	Farms		Hired Workers May, 1971
	Number (thousands)	Percent	Percent
All farms - 1970	2,954.2	100	100
Farms with:			
More than 500 man-days		0.9	48
More than 100 man-days		5.0	75

Several key facts about economic concentration in American agriculture must be kept in mind: About 57% of American farms have annual gross sales of farm products of $2500 or more.[2/] The 1.7% of farms in the highest economic class received 31%, or almost one-third of the total cash receipts from farming for all farms.[3/] These farms used approximately one-third (34%) of all farm labor in 1970.[4/]

This subcommittee may wish to consider two steps to close the gap between protections for farmworkers and other workers under the Act. First, the Act's existing coverage of agribusiness under the minimum wage provisions of Section 206 should be extended to the overtime provisions of Section 207. The 500 man-day per quarter test effectively reaches almost half of all American farmworkers without affecting 99% of all American farms. Indeed, the test covers only 3% of those farms which carry an employee payroll. This test, of course, applies only to a business using more than 500 man-days of hired (non-family) labor in any quarter of the preceding year. It does not touch the farm with as many as six steady hired hands. Thus, its extension may give a competitive advantage, through lower labor costs, to the family farm while protecting workers for the larger operations.

The following facts suggest an extension of FLSA overtime coverage to most farmworkers:

--AGRICULTURAL LABOR HAS EVOLVED OVER THE PAST FORTY YEARS FROM A SHORT SEASONAL INDUSTRY TO A FULL-YEAR PRODUCTION EFFORT. Thirty key agricultural states have farm labor seasons exceeding six months each year. Thirteen of the largest agricultural states have virtual year-round seasons,

including Arizona, California, Florida, and Texas accounting for two thirds of the nation's total farm employment.[5/]

--HALF OF THE NATION'S AGRICULTURAL WORKERS ARE EMPLOYED THROUGHOUT THE YEAR, AND ANOTHER 20% ARE EMPLOYED BETWEEN SIX AND TWELVE MONTHS PER YEAR.[6/] During peak seasons, half of the nation's farmworkers exceed 40 hours per week, one third exceed 48 hours per week and one sixth exceed 56 hours per week.[7/]

--THE ACT EXTENDS OVERTIME PROTECTIONS TO WORKERS IN SEVERAL INDUSTRIES MORE SEASONAL IN NATURE THAN THE BULK OF AGRICULTURAL EMPLOYMENT. This includes the construction industry, packing, canning, logging and timber operations, and motel/hotel operations.

--OVERTIME COVERAGE FOR AGRIBUSINESS WOULD INCREASE EMPLOYMENT. Farmworkers generally receive no sick leave, no health plans, no vacation pay, and no pensions, and agribusiness employers thus have a greater incentive than employers in other industries to hire additional workers in lieu of paying overtime. Overtime usage for the larger farms is highest in the Western states, a region in which annual unemployment among farmworkers averaged 7.8% in 1976, according to DOL statistics.

--OVERTIME PROTECTION WILL AVOID ARBITRARY FIRINGS. Currently a farmworker may be subjected to onerous hours and, on refusal to work may be fired without recourse. An amendment would protect against such retaliation.

Second, this Subcommittee may consider an amendment changing the standard of coverage under the minimum wage provisions from 500

man-days to 100 man-days per quarter. This amendment would continue the broad exemption for family farmers, their family employees, student labor and occasional hired hands. It would roll back existing immunity for larger employers under the existing test which exempts employers of as many as eight full-time employees. According to the Department of Labor, a 100 man-day per quarter test would raise the number of covered agricultural employers from 1% to 5% of the nation's total, and would raise the number of farmworkers covered from 48% to 75%, providing a significant benefit from a small extension.

From these facts, several conclusions are apparent. First, it is clear that what is good for the giant farms may not be good for the vast majority of small, family farms. Therefore, any voice purporting to speak for all agricultural employers should be scrupulously examined about which interest, in fact, it primarily represents.

Second, farmworkers must be brought within all the provisions of the Fair Labor Standards Act. Their status as second-class citizens begam more than 40 years ago, when they were omitted from coverage under the original Act. Today the conditions supporting the original exclusion are long past, agriculture growers are highly concentrated, and farmworkers at last stand at the threshold of minimum wage equality.

Any regressive suggestions about returning farmworkers to a differential status must be resisted. We appreciate the efforts of this Subcommittee over the years to remove the historic inequality between the nation's farmworkers and workers in non-agricultural industries. We urge this Subcommittee to further those efforts through S.1871.

FOOTNOTES

1/ Hired Farm Workers, U.S. Department of Labor, Employment Standards Administration, p.37 (1972), with figures for total number of farms taken from Agricultural Statistics, 1976, U.S.D.A., Statistical Research Service, p.417 (1976).

2/ Agricultural Statistics, 1976. Id.

3/ Farm Income Statistics, U.S.D.A., Economic Research Service, p.59, 61 (July, 1976).

4/ Taken from Hired Farm Workers, Id., p. A-9.

5/ Department of Health, Education and Welfare, Migrant Health Program, Bureau of Community Health Services (1975).

6/ The Hired Farm Working Force of 1975, United States Dept. of Agriculture, Economic Research Service, p. 11 (1975).

7/ Hired Farm Workers, Id., p. A-69.

The CHAIRMAN. We appreciate your added comments.
Thank you very much.
We will come back tomorrow at 9 o'clock.
[Whereupon, the hearing recessed at 2 p.m., to reconvene Thursday, August 4, 1977, at 9 a.m.]

FAIR LABOR STANDARDS AMENDMENTS OF 1977

THURSDAY, AUGUST 4, 1977

U.S. SENATE,
SUBCOMMITTEE ON LABOR
OF THE COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to recess, at 9:15 a.m. in room 4232, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman) presiding.

Present: Senators Williams and Javits.

The CHAIRMAN. We will come to order.

This morning the Subcommittee on Labor will focus on the effect which our bill to amend the Fair Labor Standards Act will have on the food service and lodging industry, and the employees of that industry.

The food service and lodging industry is a large one and employs a large number of young workers. Under current law, many of these workers can have a portion of their wages paid not by their employer, but by the customers of their employer, in the form of tips. The bill currently being considered by this subcommittee would gradually, over a period of years, eliminate this practice.

It is important for the subcommittee to understand the effect of this proposal, both on the workers themselves and on the industry which has provided so much employment in the past.

In this respect, we are fortunate to have with us today representatives of the industry and of the union which represents a large number of the workers in the food service and lodging industry. We are also pleased that a number of individuals who will be directly affected by this legislation are with us today. I view the participation of such citizens in our deliberations as the highest form of civic duty, and I welcome these citizens to our hearing.

I know that the testimony we will receive today will aid the committee and the Congress in our goal to assure fair and just wages for America's workers.

Before I turn to our first witness this morning I would like to say that my colleague, Senator Inouye from Hawaii wanted to be here to testify this morning; he is completely occupied in other committees and could not be here. He addressed a letter to me which included a copy of a letter to President Carter, and both will be included in the record.

[The letters referred to follow:]

98-912 O - 78 - 38

WARREN G. MAGNUSON, WASH., CHAIRMAN
HOWARD W. CANNON, NEV.
RUSSELL B. LONG, LA.
ERNEST F. HOLLINGS, S.C.
DANIEL K. INOUYE, HAWAII
ADLAI E. STEVENSON, ILL.
WENDELL H. FORD, KY.
JOHN A. DURKIN, N.H.
EDWARD ZORINSKY, NEBR.
DONALD W. RIEGLE, JR., MICH.
JOHN MELCHER, MONT.
JAMES B. PEARSON, KANS.
ROBERT P. GRIFFIN, MICH.
TED STEVENS, ALASKA
BARRY GOLDWATER, ARIZ.
BOB PACKWOOD, OREG.
HARRISON H. SCHMITT, N. MEX.
JOHN C. DANFORTH, MO.

United States Senate
COMMITTEE ON COMMERCE, SCIENCE,
AND TRANSPORTATION
WASHINGTON, D.C. 20510

August 2, 1977

Honorable Harrison A. Williams, Jr., Chairman
Senate Committee on Human Resources
Room 4230 DSOB
Washington, D.C.

Dear Mr. Chairman:

As your Committee considers S. 1871, please include my expression of support for the legislation in the hearing record. I also request that I be added as a cosponsor of the legislation.

The history of the efforts of the working men, women, and children in our country to achieve a just wage, which will permit a decent standard of living and the reasonable expectation of a more enjoyable tomorrow, is a long, and arduous one. S.1871, in my judgment, is the next step in our steady progression towards a better standard of living for millions of Americans.

I particularly wish to express my support for the provision in S. 1871, relating to tip credit.

I am aware of the historical reasons why present law permits employers to count their employee's tips toward payment of the applicable minimum wage. Those reasons, however, were grounded in expediency rather than justice and equity, and even that justification has long since disappeared.

Nevertheless, out of an abundance of caution against any possible disruption in the restaurant, hotel and motel industry, the drafters and supporters of the 'tip credit' provision have provided a gradual phase out of the present provision through 1983.

Recently, I wrote President Carter respectfully urging that he reconsider his opposition to the 'Tip Credit' provision.

I cited the injustice of the present law as it affects thousands of men and women in my own state of Hawaii, and an even greater number of restaurant, hotel and motel employees throughout the country.

In my judgment, such a provision is not only unjust, it discourages professionalism and contributes to instability and a high turnover rate in the industry. This, of course, adversely affects both employers and employees.

With your permission Mr. Chairman, I would also like the attached copy of my letter to President Carter to be included with this letter in the hearing record.

Aloha,

DANIEL K. INOUYE
United States Senator

DKI:lb

WARREN G. MAGNUSON, WASH., CHAIRMAN
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United States Senate

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION
WASHINGTON, D.C. 20510

July 18, 1977

Honorable James E. Carter
The White House
Washington, D.C.

Dear Mr. President:

I was deeply disturbed to learn that the Administration is actively opposing the amended version of the 'Tip Credit' provision in H.R.3744, which will shortly be considered on the floor of the House.

My principal concern is, of course, over the injustice which will be done to the thousands of dedicated men and women in Hawaii who are employed in the restaurant, hotel and motel segment of the visitor industry.

In 1976, visitors to Hawaii spent $1.45 billion, which generated $1.23 billion in personal income, and $259 million in taxes and revenues. That same year the visitor industry was responsible for 76,000 jobs, which represents 21% of Hawaii's civilian work force. A substantial number of these jobs are in the restaurant, hotel and motel industry.

I am also concerned over the injustice that will be done to a far larger number of men and women throughout the United States who occupy a substantial proportion of the almost five million jobs sustained by the travel and tourism industry.

The present law which permits employers to count their employee's tips toward payment of the applicable minimum wage is especially pernicious in my judgment because it perpetuates a system which frustrates the ability of even the best motivated employee to rise above the statutory minimum wage.

Aside from human considerations, however, this system contributes to instability and a high turn over rate in the industry. This, of course, adversely affects both employers and employees.

I am aware that opponents of the proposed amendment to the 'Tip Credit' provision in H.R.3744 have urged that it would be inflationary and result in a significant loss of jobs. I have failed to find any credible support for these contentions, however; and, in fact, the evidence I have seen is to the contrary.

It is my understanding that as originally introduced in the House, the 'Tip Credit' provision would have been effective immediately. In a spirit of cooperation and to take every precaution against any possible adverse impact on management that might be caused by an abrupt change in the law, the sponsors of the bill, with the support and cooperation of the Hotel and Restaurant Employees and Bartenders International Union, AF of L - CIO, have amended it to provide a more gradual approach. As amended the provision would leave the law as it is for two and one half years, and then phase out 'Tip Credit' gradually through January 1, 1983.

Mr. President, a gradual phase out of "Tip Credit' is not only sound economically, it is a just and reasonable solution to a very discriminatory and onerous provision in our labor laws. I respectfully urge you to reconsider.

Aloha,

DANIEL K. INOUYE
United States Senator

DKI:jhd

The CHAIRMAN. Our first witness this morning is Mr. Robert Juliano, legislative representative of the Hotel and Restaurant Employees and Bartenders International Union, AFL–CIO.

Welcome to you, Mr. Juliano, we look forward to your statement.

STATEMENT OF ROBERT E. JULIANO, LEGISLATIVE REPRESENTATIVE, HOTEL & RESTAURANT EMPLOYEES & BARTENDERS INTERNATIONAL UNION, AFL–CIO, ACCOMPANIED BY GERALD M. FEDER, ATTORNEY

Mr. JULIANO. Thank you, Mr. Chairman.

I would like to start by asking that there be introduced for the record a letter of support from the Food and Beverage Service Trades Department AFL–CIO, of which we are an affiliate. I will not read it, but I would appreciate if you would incorporate it in the official record.

The CHAIRMAN. It will be.

Mr. JULIANO. Mr. Chairman, in behalf of our general president, Edward T. Hanley, it is a pleasure for me to appear before your subcommittee to support S. 1871, a bill to amend the Fair Labor Standards Act. Our international union represents 500,000 members throughout the United States and Canada, many of whom belong to the category that is commonly referred to as "tipped employees." S. 1871 would phase out and ultimately repeal the provision of existing law which generally limits tipped employees to the receipt of one-half of the applicable minimum wage. Although we totally support your efforts with respect to the minimum wage increase and indexing, and wholeheartedly concur in the testimony of George Meany, president of the AFL–CIO, we feel it proper to confine our remarks to the specific area of the tip credit, since it so directly concerns members of our international union.

We strongly support you in your efforts to rectify the tip credit situation. Our international union is confident that the members of the subcommittee and the Members of the Congress share the desire to reach an equitable solution.

First and foremost, I think it is important to establish a motivation behind the effort to rectify the present inequity which the tip credit allows. However, without digressing too far, it is our feeling that all of you should be aware of our international union's position regarding our members and the industry.

Over the last few years, our union has worked actively in behalf of legislation which promotes tourism to our country from abroad, as well as domestic tourism. We perceive tourism to be a major industry, since it employs approximately four million people and contributes in excess of $100 billion to our national economy.

Part of these programs are geared to stimulate domestic tourism, meaning the movement of Americans within America. We view this concept as a vital way of combating the high rate of unemployment, and also a way of stabilizing employment in our industry and at the same time stimulating the national economy. In all of these endeavors, our international union has been in the forefront of the legislative activity.

My reason for presenting this background information is simple—we know that witnesses will testify that in our desire to effectively

represent our membership and secure equitable and just treatment for them under the law, we will do irreparable damage to the industry. Considering the total commitment of time, energy, and resources that has been made by our General President, we feel no one can deny that our actions are geared to build, develop, and strengthen the industry of which we are a part.

After all, we are significantly aware that further economic reversal in the national economy can only mean significantly more problems for the industry. As more hotels and restaurants close, we can only lose members and our members can only lose jobs. We trust no witnesses will raise the lame argument that such closings are due to increased labor costs. The increases in operating expenses for items such as food, utilities, paper, etc. are significantly higher than wage increases in the past few years.

It is our desire to see many more new hotels, motels, and restaurants open since that conceivably could lead to a greater growth in our membership. Expansion can be achieved not at the expense of workers, but to their benefit. Thus, we assume the posture that labor and management share the problems of the industry and can mutually benefit from working together on most issues. In fact, our union has probably expended more effort on helping the tourism industry than the industry itself.

The item which this distinguished subcommittee is presently deliberating is purportedly one which pits labor and management in an adversary position. I view that as a traditional, institutional concept that does not necessarily apply any more, except to those who are archaic enough to adhere to cherished tradition. In fact, I have on several occasions challenged the leaders of the hotel, motel and restaurant industry to sit down with us to discuss this problem in an enlightened manner. Indeed, while the bill was pending before the House Labor Subcommittee, Chairman Dent offered his good offices to achieve that result. All to no avail.

All we are asking is equitable treatment under the law for our members.

To put the issue of the tip credit in its proper perspective, I hope I may be permitted, even though I am not an attorney, to quote former U.S. Senator and Supreme Court Justice Hugo Black:

> The tip paying public is entitled to know whom it tips. A plan which covertly diverts tips from employees for whom the giver intended them to employers for whom the giver did not intend them and to whom any kind of tip doubtless would not have been voluntarily given, seems to me to contain an element of deception. And I think an interpretation of the Federal Labor Standards Act which permits employers to benefit from such a plan does not accord with the meaning of the language used by Congress.

Clarence Mitchell, testifying on behalf of the Coalition for A Fair Minimum Wage, also put it well early this week when he said, "Tips are not wages. They are a gift from the customer to the person who provides the services. They should not be converted by the law into a gift from customers and the employees to their employers."

The Fair Labor Standards Act permits employers of employees who customarily and regularly receive slightly less than $5 per week in tips to subtract from the wage which they must pay, every penny that employee receives in tips up to 50 percent of the minimum wage.

In our view, tips are a gift from a customer to the person who provided services. They are not wages. This is the plain dictionary meaning of the term, and it is embodied in Labor Department regulations. Indeed, under the Social Security Act, employers do not even have to make matching contributions on declared gratuities.

Income from tips may vary substantially with the relative condition of the economy, with the location of a business, with local custom, with the age or sex, or attractiveness of the employee, with the general clientele of the establishment in which a worker is employed, and with other factors apart from the quality or quantity of services rendered. This is especially burdensome on the employee because restaurants, hotels and motels are part of a so-called discretionary industry, which feels the impact of economic downturns more immediately and drastically than all others.

In other occupations, if the quantity and quality of work are worth $3.45, as an example, the employer must pay $3.45. However, this is not the case with regard to tipped occupations. There, all the employer does is to guarantee the minimum wage, currently $2.30 per hour. If the employee is successful in receiving $1.15 an hour in tips, her only accomplishment is to reduce the amount her employer must pay. Only when the customers' generosity exceeds $1.15 per hour does she begin to receive more than the minimum wage.

This system forces the employee to hustle for tips and curry favor in order to maintain a decent standard of living. Furthermore, by permitting employers to count their employees' tips toward the applicable minimum wage, the law creates a system which frustrates the ability of even the best motivated employee to rise above the statutory minimum. This not only disadvantages the employee, in addition it costs the employer because the system leads to instability of employment and high turnover, occasioned in part by the lack of incentive offered by the system. Indeed, this high turnover, sometimes in excess of 150 percent, imposes an immeasurable cost on the industry.

The basic arguments of those who oppose the phaseout of the tip credit are (a) it would be inflationary and (b) it will result in a significant loss of jobs. The only documentary support put forward by the opponents of the committee bill are a survey done for the National Restaurant Association and a consultant's report, done by Andrew Brimmer, who neglected to mention who commissioned his report. Both are based primarily on the experience of the State of California which has only recently increased the minimum wage and repealed the tip credit at the same time.

These reports, which have been widely circulated in the Congress and in the administration conclude that as a result of the tip credit repeal and minimum wage increases (1) "The equivalent of over 36,000 40-hour-per-week jobs could be lost", (2) "California restaurateurs were forced to raise prices significantly," and (3) "Restaurant earnings in California are likely to decline, having a negative impact on the growth of the industry."

At the outset, let me repeat for the record the comments made by Secretary of Labor Marshall with respect to these studies.

On Thursday, July 28, 1977, he testified on the Senate minimum wage bill in behalf of the administration before your subcommittee. At that hearing he engaged in colloquy with you, Senator Williams, on the validity of the National Restaurant Association study of the California experience. The Secretary concluded that:

There are sampling problems with the studies, there are problems with bias because the studies are made by people who have a particular point of view, and were not objective and were not trying to see what the impact would be. They have their mind made up, and they had a study to prove what they wanted to prove, and that is not the best way to go about doing it.

Despite the obvious bias of the NRA study, our union realized that we would have to combat its abuse of the truth. Therefore, we thoroughly investigated its allegations by examining the basic economic data accumulated by the State of California during the period preceding and encompassing the minimum wage increase and tip credit repeal. The NRA allegations were without foundation, to say the least.

First, we found that instead of decreasing, as projected by the opponents of your bill, employment in California's food service industry increased by nearly 25,000 jobs in 1976. As a matter of fact, employment is increasing at an even greater annual rate in 1977 despite another 30-cents-an-hour increase in the minimum wage. Second, although California restaurateurs raised their prices in 1976, their price increases were the smallest in 3 years.

In the third place, we discovered that the California food service industry is healthier than ever, and growing at a faster pace. The number of food service establishments increased by 1,294 in 1976, a larger increase than the previous year; and is increasing at an annual rate of 1,608 more establishments so far in 1977.

It is clear that the economic health of the industry in California has not been negatively affected by the minimum-wage increase and tip credit repeal. Indeed, it appears to have been helped.

When he testified last week, while recognizing the limitations of the Labor Department's analyses, Secretary Marshall observed that:

We can show from a gross point of view that when tip credit has been changed in States like California, particularly California, that from an aggregate point of view it has not had apparent adverse effects.

Mr. Chairman, we wish to submit for the record copies of analyses we have prepared of both the National Restaurant Association study and the Brimmer report based on that study.

The CHAIRMAN. They will be included in the record.

Mr. JULIANO. S. 1871 reflects your considered judgment that a gradual approach to treating the restaurants, hotels, and motels the same as all other employers covered by the act is necessary to enable these industries to accomodate the changes without adverse economic impact. Your approach of "easily digestible changes" is consistent with the historic approach of Congress to the Fair Labor Standards Act and is simply a continuation of the pattern begun in 1966 with respect to tipped employees.

In 1966, Congress amended the Fair Labor Standards Act to cover most restaurants, hotels, and motels for the first time. To ease the impact, the Congress permitted a tip credit system under which employers in the affected industries would only have to pay 50 percent of the minimum wage to those employees who customarily and regularly received $20 per month in tips.

In 1974, when you next amended the Fair Labor Standards Act, you required for the first time that tipped employees must actually receive the amount of tips for which the employer claimed the credit. Furthermore, of course, you increased the minimum and imposed overtime restrictions on the affected industries. Therefore, it was determined

that repeal of the tip credit at that time would, when coupled with the other elements, impose too great and immediate a burden.

At that time, our union was asked to hold off any action on the tip credit in the interest of getting an agreed-upon bill, which would be signed by Richard Nixon. The Hotel and Restaurant Employees and Bartenders Union agreed.

But now you are considering a minimum wage bill with an indexing mechanism. If you succeed, Congress will no longer have the incentive to revisit the Fair Labor Standards Act. Therefore, any provisions to remedy the tip credit abuse must be made part of this bill.

You know, Mr. Chairman, there is an irony in this issue.

In most areas of minimum labor standards, the Federal Government has been required to take the lead and break new ground. In this area, however, the impact of your bill is softened by the headstart taken by many States. Of the 40 States which have applicable State laws or regulations, 9 have laws which do not permit any tip credit; 17 only permit a smaller tip credit than the current Federal law; 13 of the remaining 14 permit a 50-percent credit, while Virginia permits a credit of the actual amount received in tips.

There are no documented reports of adverse effect in any of the States which prohibit a tip credit, or permit only reduced tip credits. The employer scare tactic of applying a 15-percent service charge to all checks—which management would keep—has just not manifested itself in the States where the tip credit has been repealed or reduced.

Let me focus on this question of a service charge for a moment.

When Secretary of Labor Ray Marshall testified before your subcommittee on July 28, 1977, with respect to S. 1871, he expressed a fear that "A reduction in percentage terms of the tip credit may induce some employers to replace tips with a service charge." He cautioned that "This could lower the combined wages and tips of these employees." Unfortunately, this is the same kind of unsupportable speculation which the National Restaurant Association is bandying about.

The Secretary did not bring to your attention testimony before your subcommittee in 1971 when Admiral Ira Nunn, testifying in behalf of the National Restaurant Association, stated as follows:

> We, of course, have toyed with the idea of advocating the abolition of tipping as a policy of our association. It has been tried many times and it never works.

The American Hotel and Motel Association testified to similar effect before the House Subcommittee on March 9, 1977.

Furthermore, the National Restaurant Association, in its biased survey, found that 99 percent of the operators indicated that they had not instituted a "service charge" in their restaurants when California repealed the tip credit.

The institution of the service charge is the kind of red flag which the NRA has been waving without any support for the better part of a year now. They have not only been attempting to scare Congress, they have been using this "big lie" approach to intimidate their employees. Unfortunately, the Secretary of Labor lent credence to those efforts.

One further observation is necessary with respect to the possible impact of your bill.

When Secretary Marshall testified last week, as I have already indicated, he and his staff noted the economic health of the food service industry in California. He could have also brought to your attention the study done by the Labor Department immediately after Congress imposed the minimum wage on the bulk of the food service and lodging industry for the first time in 1966.

The Secretary of Labor, Willard Wirtz, stated as follows with respect to hotels and motels:

> Employment rose by an estimated 500 workers to almost 265,000 in covered hotels and motels during the 6-month period spanning the effective date of the $1 minimum wage. The largest regional increase was a gain of 4,000 workers in the south. This was of particular significance since southern establishments were the only ones in which the minimum wage has a significant impact.

With respect to eating and drinking places he concluded that:

> Nationwide employment in non-covered establishments declined by 2,600 workers between October 1966 and April 1967 as contrasted with an increase of 3,900 in covered establishments.

Mr. Chairman, may I take a moment or two to suggest some other changes that would be very beneficial to workers, without any adverse impact on covered employers.

One of the problems we have already noted is that customers are not at all aware that their gratuities are really being used by employers to make up part of the minimum wage. So long as any tip credit is permitted by the law, we would strongly recommend that the bill include a requirement similar to that in the law in Ohio that notices be posted informing customers of this practice. We believe it would be in the best interest of full disclosure to require the following notice:

> This restaurant pays — % (the employer shall insert the percentage of the minimum wage rate payable to tipped employees) of the minimum wage to its tipped employees. The balance is made up from your tips.

As in Ohio, if the employer fails to furnish the patrons with the required notice, he should be required to pay all employees the minimum wage.

Another area of concern to us involves the credits employers may take against our members in addition to the tip credit.

In our industry, historically, employers have charged to their employees meals, lodging expenses, uniform allowances, cash shortages, losses attributable to customer walkouts, and breakage. To the extent they can get away with it, they try to take advantage for all of those from the $1.15 per hour left after they take the tip credit.

Fortunately the Labor Department does not permit deductions for cash shortages, customer walkouts, and breakage if the deductions reduce the cash wage paid to the employee to below the minimum. But, the law permits a deduction for meals and lodging, and the Department permits a deduction, under certain circumstances, for uniform expenses. Now, we have just learned that the Labor Department is permitting employers to charge back to their tipped employees a service charge for handling credit card tips.

A law which permits these charges to be levied against some of the lowest wage workers in the United States does not deserve to be called a Fair Labor Standards Act.

We urge that, so long as there is any tip credit, the committee follow the practice in a number of States of including within the maximum credit all charges which may be made against our members.

In New Jersey, for example, the law permits a maximum credit of 42 percent inclusive of gratuities, food, and lodging.

Mr. Chairman, time does not allow us to continue to delve into the facts, or we would be here for days. In contrast, the opponents of your bill have instead embarked upon a program of hysteria, emotion, and distortion of the facts. They feel smug in this endeavor because we understand their ally throughout the deliberations in the House and now the Senate happens to be the President of the United States. We cannot believe that the President is aware of the fact that the highest office in the land is being used as part and parcel of such chicanery which affects low-income, minorities, and predominantly unskilled workers. However, the active lobbying effort by the White House will not deter our efforts or our desire to get at the facts of this issue.

Mr. Chairman, we strongly support your effort to bring reason and logic back into focus on the tip credit issue. S. 1871 presents a fair and evenhanded way of handling a complex problem. We applaud you for these efforts, and for your continued efforts in behalf of all workers.

The CHAIRMAN. Thank you very much, Mr. Juliano, for your comprehensive statement. I wonder if you could supply us with some background material for our record, mentioning the number of States and how they do handle the tip credit.

Mr. JULIANO. I would be happy to provide that.

The CHAIRMAN. Is that your counsel, Mr. Feder?

Mr. JULIANO. I neglected to mention that; I am sorry.

The CHAIRMAN. Is that the table which you hold in your hand?

Mr. JULIANO. Yes. At the beginning I wanted the record to show that I am accompanied by Gerald Feder.

The CHAIRMAN. That was an oversight and I made up for it by mentioning it for you.

Mr. JULIANO. Thank you very much.

The CHAIRMAN. Now, I would like to see that; I wonder if counsel would release that, so that we can have it.

We do have the Department of Labor State break-down.

Only one State stands out here with any particular distinction, and I do not understand it. The State of Utah has what is described in parentheses a law that is applicable to women and minors only. I do not see anything comparable in any other State. That seems to be an anachronism, a persistence of practice of many, many decades ago. How does that work? How is that applicable to women and minors only?

Mr. JULIANO. I wish we could answer your question. Mr. Chairman, we were perplexed when we noticed it because, as you rightly pointed out, that is the only State that has that annotation applicable to women and minors only.

The CHAIRMAN. And the maxium tip credit is 25 percent.

Mr. JULIANO. Right.

The CHAIRMAN. What is the situation in Utah for adult men? Do you have any idea?

Mr. FEDER. For adult males who are covered only by the State law and not by the Federal law, namely in small establishments, we can only assume, since there is no limitation in the State law, that the 25

percent limitation is only applicable to women and minors. The State does not deal with that, it does not cover men at all.

The CHAIRMAN. There is no provision for it at all.

Mr. FEDER. There is no provision for it at all.

The CHAIRMAN. We will include both of those in the record. The document supplied by Mr. Juliano is more easily read. The other is more complete.

I do not understand the statement on the last page dealing with this charge-back for services, for handling of credit card tips. How does that work?

Mr. JULIANO. It has just come to our attention that if a person goes to a restaurant or hotel and uses a credit card, there of course is a service charge, charged to the employer for the handling of the account, and so on. And whatever the cost of that percentage is, they are allowed to take that percentage off the tip which you, as a customer, would leave for the waiter or waitress.

The CHAIRMAN. I see. On the credit card charge there is a provision——

Mr. JULIANO. Where it says "tips," so you put down $10.

The CHAIRMAN. Not always, sometimes. We will assume that it does happen, and you put in an amount of money. Then the employer reduces that?

Mr. JULIANO. That is correct.

The CHAIRMAN. By?

Mr. JULIANO. As I understand it, it is the amount, whatever it costs him, or the service charges from the appropriate credit card company. He is allowed to take that percentage off as sort of a handling charge for transmitting your tip to the waiter or waitress.

Mr. FEDER. Mr. Chairman, the relevant sentence of the Department of Labor's opinion explains it very briskly, I think. Where a credit card company charges an employer 5 percent—that is an example they use—they charge "an employer 5 percent on all charge sales for the use of the credit facility, paying over to the employee of 95 percent of the tips charged will not result in a violation of the act." So, the employer can withhold 5 percent of the tip and put it in the cash register.

The CHAIRMAN. So, this is an application of the same percentage charged to the tipped employee as the percentage the company charges, the credit card charges to the establishment.

Mr. JULIANO. That is correct. That is just another magnanimous gesture to go along with other kinds of practices, in the industry of deducting from the employee, the tip credit employee, items which we find difficult to rationalize. After you take a tip credit under the assumption that you are getting tips to make up the difference between your salary and the minimum wage. Yet, most of our people get vacation wages at 50 percent of their wage, with the tip credit taken out, except where we knocked it out through collective bargaining.

The CHAIRMAN. The quotation of Justice Black seems most relevant. I am not familiar with the case, and I do not want to review the case here.

Mr. FEDER. The plaintiff in the case was a Mr. Williams.

The CHAIRMAN. Oh, that is very good. We have the longest list in the phone book. Do you want to tell me what the case involved?

Mr. FEDER. Very briefly, it was about tips for porters at railroads. And the court held against the "tipped employee," that where there is an "agreement" the employer can take credit for the tips, not paying wages at all. And Justice Black's comments were in dissent, which were joined by two other members, one of which was Justice Douglas.

The CHAIRMAN. This predated the covering of tip employees in the minimum wage.

Mr. FEDER. Yes, sir.

The CHAIRMAN. It was not a minimum wage case.

Mr. FEDER. It was before the Fair Labor Standard Act Amendments of 1966—it was in 1942.

The CHAIRMAN. In your rebuttal to the Restaurant Association study you described the study and the report, and you have included a lot of material that shows the experience in California before and during the year of the change, and I think in the year after. I do not see it in your statement—the materials I have seen—that you give the sources that led you to your conclusions that things have improved in California in terms of employment, and in terms of wages.

Mr. JULIANO. Right.

The CHAIRMAN. It does not say where you got that.

Mr. JULIANO. That is in the analyses we asked to be made part of the record, they come from the State of California.

The CHAIRMAN. And where does it come from?

Mr. JULIANO. The State of California, the State equalization board.

The CHAIRMAN. A State agency?

Mr. FEDER. The State Board of Equalization, and the State Employment Development Board. That is published data.

The CHAIRMAN. Was that available to Brimmer when he did his study?

Mr. JULIANO. It is available to the public. Whether he made use of that data we do not know.

The CHAIRMAN. The study was during the period when this data from the State of California, from the Government, was available.

Mr. JULIANO. Yes, sir.

The CHAIRMAN. The California change in the law on tip credit came all at once, it was not gradual.

Mr. JULIANO. Sometimes the State legislature does not show the same statesmanship.

The CHAIRMAN. That is not statesmanship, that is moderation.

Mr. JULIANO. Moderation.

The CHAIRMAN. They were more statesman-like than we.

Mr. JULIANO. They went from 25 percent to zero on January 1, 1976. The law was written 30 days after enactment.

The CHAIRMAN. We have no preemption in our law.

Mr. JULIANO. Well, it is my understanding that States have to be equal to your law, they cannot be worse, but they can be better. In other words, the maximum that any State tip credit could be is 50 percent because that it what the Federal law currently is. But they can have a lower percentage. As I indicated, 27 States have no tip credits, or reduced their tip credits.

The CHAIRMAN. So, the impact of these changes, if they went into law, would be on a minority of States; is that right?

Mr. JULIANO. Well, none of the figures in the survey or the report seem to take into account that there are no tip credits, or there are modified tip credits in many States.

The CHAIRMAN. Well, we will have to review that to see the States that we would reach, and those which have exceeded this legislation by elimination, or partial elimination, of tips and tip credits to be applied to the minimum wage. How many States are we dealing with? Twenty-three States.

Mr. JULIANO. That in part is the problem, Mr. Chairman. Obviously it is a highly emotional issue on the part of management. There is a great reluctance to get into the facts such as how many States that are not using tip credits, any they cited the use in California as an example. On the House side some comments have been bandied about, how come they brought a panel of waitresses in that testified against any change. We do not understand which change they are talking about. The gentleman who chaired that particular portion was the distinguished Congressman from Minnesota. The tip credit in the State of Minnesota at the time they testified was 25 percent. Effective September 15 of this year, it will be 20 percent.

The panel of waitresses that were brought in by whomever to testify said they wanted no change in tip credit. It still has not been made clear to us if they mean no change in the tip credit of 50 percent when they are working in a State where it is going to be 20 percent within a matter of months. There are all these kinds of distortions that seem to emanate especially from States where really those people who would support your legislation would be voting on something that would have a negligible impact on their own State.

The CHAIRMAN. It occurred to me that we had not looked into that. Someone in these hearings, or maybe it was in conversation, wondered if we had ever talked to any of the affected employees. To put it more precisely, "Have you ever talked to any waitresses about this provision?" Frankly, we had not at that point had any waitresses. When I say "waitresses," I am talking about waitresses and waiters. Now, today we will, and I am told they will take the opposite view on this. Have you ever talked to any waitresses?

Mr. JULIANO. Many. Our distinguished colleagues from the other body would have you believe that the only tipped employees are waiters and waitresses. With all due respect to my colleagues in the industry—and I think they might even substantiate the fact to you, that there are certainly many other categories of employees that are classified as "tip employees," such as bellmen, and doormen, bartenders, room service waiters, and many, many other classifications. No one seems to want to acknowledge the fact that there are all these people who are really working not in the supposed glamorous position as people would have you believe. I do not mean to impugn the highest office in the land, but, as an example, apparently our current President in his desire to reduce the imperial aspects of his office, likes to carry his own baggage.

Well, I stood at the front door of the Palmer House where I worked for many years and talked to two doormen whom I have known for 15 years. They just stood there and said, "Look," as a women's convention was checking in, and about 50 percent of them were carrying

their own bags. Perhaps it sounds somewhat amusing, but it is not to those people because their income is going to be reduced significantly. And of course besides the doorman the ripple effect also affects the bellman.

So, you are not only talking about people who are working in restaurants and lounges, you are also talking about people who work in very high density areas, areas you were alluding to yesterday, such as the major cities, in major urban areas' large hotels. There is a significant number of people affected who are not in those categories.

I would venture to say that the impact on the hotels with whom we have collective bargaining agreements, and also those with whom we do not in major urban areas, if your bill is enacted into law just as it is, the impact on the tip credit will be negligible because you are phasing it out in such an evenhanded way over a period of years.

The restaurants apparently see fit to differ. I have to admit in all candor that they do have other considerations because they do not sell rooms like a hotel does. But those who testify would have you believe that the classification is limited. Every time you try to focus on the fact that there are thousands and thousands of people in other categories they do not seem to want to focus on it.

The CHAIRMAN. Now, the State of California government did a pretty good job, it seems to me. They certainly got data in the right area to measure the effect of the 1976 change. We have nothing comparable at the Federal level up to date, do we?

Mr. FEDER. Mr. Chairman, I think there is one set of data which the committee ought to explore because it is relevant. The Secretary of Labor just very quickly alluded to it when he testified. He noted that there was no direct data on the reduction of the tip credit on the Federal level. But inasmuch as the reduction of the tip credit is possibly a minimum wage increase, insofar as its effect, the dollars-and-cents effect on employers, it seems to us that the data with respect to the last minimum wage increase is relevant.

The minimum wage increase in 1966 for hotels and restaurants was a larger percentage than the combined effect of your minimum wage increase in this bill, as well as your tip credit phaseout. So, the experience of what happened in hotels and restaurants with respect to this 25-percent increase is directly relevant. The Department of Labor did studies immediately after the 1966 amendment went into effect. Yesterday some of your witnesses were complaining about the fact that ordinarily studies are not done that way. But here is an example where the Department of Labor went in immediately, within 6 months, of the imposition of the minimum wage increase, a 25-percent increase, and did an analysis of the effect on employment both on the hotel and restaurant industry.

The Secretary of Labor then noted that covered employment where the minimum wage increase had an effect, increased; uncovered employment decreased.

The CHAIRMAN. I noticed that. There was no speculation as to the reason for that. I wonder what the reason was.

Mr. FEDER. Some people have suggested that perhaps the minimum wage increase stimulated employment. But of course we do not have any economists that would have said that.

The CHAIRMAN. The uncovered would have been the smaller establishments.

Mr. FEDER. That is right. Those people were not affected at all by the minimum wage increase, and their employment suffered; and those who were supposedly going to go out of business because of the 25-percent increase in minimum wage somehow managed to find the need for more employees immediately after the increase.

So, historically, according to the Department of Labor data, there has always been an employment increase following the minimum wage, as opposed to the projections of the econometricians who have always projected that employment will decrease.

Mr. JULIANO. This was the econometric model they were talking about yesterday where your minimum wage problem was tied up with the problem of South Africa, plus it was tied up with a subminimum wage for youth.

You will have to forgive our frustration, but we see all the emotion and hysteria. And by the way, I really request that you rename your youth program because people seem to have a great apprehension about even saying, "subminimum youth differential," they cannot seem to be able to get it out. Someone even said "subliminal." That was someone from McDonald's, so you can understand their viewpoint.

I heard a lot of testimony yesterday, and I was really intrigued. If it does not have that great an impact I want to request a special subminimal wage rate for Italians of 90 percent because I want something a little bit better for my people. But there has to be pizza in it. That would really put the frosting on the cake in opposition to the "Big Mac."

The CHAIRMAN. They always put these in terms of disadvantaged groups.

Mr. JULIANO. Absolutely.

The CHAIRMAN. So, you do not qualify.

Mr. JULIANO. Absolutely not. We are a minority, now. Seriously, as you know, I spent a few years in the industry. I happen to feel as one who has experienced and has had responsibility for hiring people and developing people, training people, that a subminimum rate for youth is the rankest form of discrimination that exists. I think that anyone who believes in equal pay for equal work could not help but be revolted by the idea of paying someone less for a job that they are doing.

I venture to say without having any facts whatsoever that if the company we mentioned that has its headquarters in Illinois were to come forward with its employee records, would just hand them over to the chairman, I have the feeling that you might find the length of stay for the average employee would probably be around 4 to 6 months; and if it is not, going to a subminimum rate for youth at 85 percent would certainly insure the length of stay of the employees of 4 to 6 months.

I can understand their extreme interest in such a provision because what in essence you would be doing would be giving him the statutory permission to really pay the vast majority of the employees 85 percent of the equivalent minimum wage.

It is paramount to the kind of information and the kind of hysteria such as demonstrated by Mr. Neeb the other day. I understand he indicated that I was out of touch with my members and had not greatly communicated with them, and that I did not represent their best in-

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terests. I do not know as we can get into that today. Mr. Neeb runs a restaurant operation of 100 or 200 units, and they are all nonunion. So, I do not think he is qualified to talk about labor-management relations, and especially when he makes a comment in colloquy before your subcommittee.

I am sure you are aware of some restaurants where you can be run down in the parking lot by a waiter if you fail to leave a tip. They will let you know what they think about it.

I find that somewhat reprehensible, and I find it is totally in tune with the kind of campaign that some of these people have conducted.

I must admit in fairness, there are people coming up behind us who for the most part have not seen fit to get down to that kind of level. The majority of the larger hotels and restaurants have not engaged in that kind of campaign. We understand their opposition, but at least they are fighting it on a professional level. But I think it is detestable for someone to use his own employees this way. This is the same man testifying for the Chamber, who appeared on a TV program with one of the employees, who flooded the Hill with all of these "spontaneous" letters. All the Members we talked to got all these letters from waiters and waitresses stating: "What a terrible change." Unfortunately I do not have them. If the record will remain open I would like to ask your permission to include them, I can get them. They are copies of mailgrams that have been received in congressional offices, although they have different names, the text of the message is verbatim the same in every one.

That is the kind of "spontaneity" we are running into. I do not think any enlightened Member can really be persuaded by an orchestrated campaign. They obviously feel the situs picketing ripple effect and feel if they just have their employees sign their names and tell them what to say, that it will have an effect on the Congress. We choose to think otherwise and hope the logic and facts of the issue will be brought to the forefront, such as you are doing in these hearings.

The CHAIRMAN. Well, we are certainly searching here for all data and information we can get in this area where a lot of questions cannot be definitively answered. Although, that California situation does present what I would assume would be reliable economic data, impact data.

Thank you very much gentlemen. We have taken a lot of your time, we appreciate it.

Mr. JULIANO. Thank you very much.

[Information supplied for the record follows:]

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August 15, 1977

The Honorable
Harrison A. Williams, Jr.
Chairman
Senate Human Resources Committee
4320 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Mr. Chairman:

I have reviewed the prepared statement of Pfilip G. Hunt of the Food Service and Lodging Institute and feel compelled to comment on two matters incorporated therein.

In the first place, Mr. Hunt states, without offer of proof, that the tipped employees of Morrisons Cafeterias average $35 a day in tips, implying thereby that this is standard for tipped employees in the United States. He offers no proof. Furthermore, he subsequently argues that the impact of your definition would be "staggering for the restaurant, hotel and motel industry and it would create a dollar figure that would push the amount of tips necessary to qualify as a tipped employee so high that the tip credit would be valueless for the food and lodging industry within one day after the implementation of this provision." He really cannot have it both ways, for if Morrisons Cafeterias' tipped employees are earning $35 a day in tips, they will reach $138 in four days, let alone a month.

In the second place, Mr. Hunt proposes the incorporation in the committee report of language taken from the committee report of the 1966 amendments to the Fair Labor Standards Act. Putting aside for a moment his incorporation

in such language of a $30 a month plateau for the definition of a tipped employee, it appears to us that inclusion of such legislative history would unwisely place a cloud on the continued viability of certain outstanding Labor Department regulations. Specifically, Labor Department regulations already define the circumstances under which individual tip receipts are controlling as opposed to what is customarily and regularly received, the significance of the minimum monthly tip receipts, implications of dual jobs, the distinction between receiving the minimum amount customarily and regularly on the one hand and receiving the minimum amount each and every month on the other, the impact of occasional sickness, vacation, seasonal fluctuation and the like as well as the calculation of relevant tip credit calculations during initial and the terminal months. For your convenience, I have enclosed herein a copy of the relevant regulations (29 C.F.R., sections 531.50 et seq.).

As a final matter, I would suggest that Mr. Hunt's studies (see page 6 of his testimony) be made available for the record.

We would appreciate the incorporation of this letter in the record of the hearing.

Sincerely,

Robert E. Juliano

REJ:edg
Enclosure

any profit or benefit from the transaction. In such case, payment to the third person for the benefit and credit of the employee will be considered equivalent, for purposes of the Act, to payment to the employee.

(b) No payment by the employer to a third party will be recognized as a valid payment of compensation required under the Act where it appears that such payment was part of a plan or arrangement to evade or circumvent the requirements of section 3(m) or Subpart B of this part. For the protection of both employer and employee it is suggested that full and adequate record of all assignments and orders be kept and preserved and that provisions of the applicable State law with respect to signing, sealing, witnessing, and delivery be observed.

(c) Under the principles stated in paragraphs (a) and (b) of this section, employers have been permitted to treat as payments to employees for purposes of the Act sums paid at the employees' direction to third persons for the following purposes: Sums paid, as authorized by the employee, for the purchase in his behalf of U.S. savings stamps or U.S. savings bonds; union dues paid pursuant to a collective bargaining agreement with bona fide representatives of the employees and as permitted by law; employees' store accounts with merchants wholly independent of the employer; insurance premiums (paid to independent insurance companies where the employer is under no obligation to supply the insurance and derives, directly or indirectly, no benefit or profit from it); voluntary contributions to churches and charitable, fraternal, athletic, and social organizations, or societies from which the employer receives no profit or benefit directly or indirectly.

Payment of Wages To Tipped Employees

§531.50 Statutory provisions with respect to tipped employees.

(a) With respect to tipped employees, section 3(m) provides:

> In determining the wage of a tipped employee, the amount paid such employee by his employer shall be deemed to be increased on account of tips by an amount determined by the employer, but not by an amount in excess of 50 per centum of the applicable minimum wage rate, except that in the case of an employee who (either himself or acting through his representative) shows to the satisfaction of the Secretary that the actual amount of tips received by him was less than the amount determined by the employer as the amount by which the wage paid him was deemed to be increased under this sentence, the amount paid such employee by his employer shall be deemed to have been increased by such lesser amount.

(b) "Tipped employee" is defined in section 3(t) of the Act as follows:

> "Tipped employee" means any employee engaged in an occupation in which he customarily and regularly receives more than $20 a month in tips.

§531.51 Conditions for taking tip credits in making wage payments.

The wage credit permitted on account of tips under section 3(m) may be taken only with respect to wage payments made under the Act to those employees whose occupations in the workweeks for which such payments are made are those of "tipped employees" as defined in section 3(t). Under section 3(t), the occupation of the employee must be one "in which he customarily and regularly receives more than $20 a month in tips." To determine whether a tip credit may be taken in paying wages to a particular employee it is necessary to know what payments constitute "tips," whether the employee receives "more than $20 a month" in such paymetns in the occupation in which he is engaged, and whether in such occupation he receives these payments in such amount "customarily and regularly." The principles applicable to a resolution of these questions are discussed in the following sections.

§531.52 General characteristics of "tips."

A tip is a sum presented by a customer as a gift or gratuity in recognition of some service performed for him. It is to be distinguished from payment of a charge, if any, made for the service. Whether a tip is to be given, and its amount, are matters determined solely by the customer, and generally he has the right to determine who shall be the recipient of his gratuity. In the absence of an agreement to the contrary between the recipient and a third party, a tip becomes the property of the person in recognition of whose service it is presented by the customer. Only tips actually received by an employee as money belonging to him which he may use as he chooses free of any control by the employer, may be counted in determining whether he is a "tipped employee" within the meaning of the Act and in applying the provisions of section 3(m) which govern wage credits for tips.

§531.53 Payments which constitute tips.

In addition to cash sums presented by customers which an employee keeps as his own, tips received by an employee include, within the meaning of the Act, amounts paid by bank check or other negotiable instrument payble at par and amounts transferred by the employer to the employee pursuant to directions from credit customers who designate amounts to be added to their bills as tips. Special gifts in forms other than money or its equivalent as above described such as theater tickets, passes, or merchandise, are not counted as tips received by the employee for purposes of the Act.

§531.54 Tip pooling.

Where employees practice tip splitting, as where waiters give a portion of their tips to the busboys, both the amounts retained by the waiters and those given the busboys are considered tips of the individuals who retain them, in applying the provisions of section 3(m) and 3(t). Similarly, where an accounting is made to an employer for his information only or in furtherance of a pooling arrangement whereby the employer redistributes the tips to the employees upon some basis to which they have mutually agreed among themselves, the amounts received and retained by each individual as his own are counted as his tips for purposes of the Act.

§531.55 Examples of amounts not received as tips.

(a) A compulsory charge for service, such as 10 percent of the amount of the bill, imposed on a customer by an employer's establishment, is not a tip and, even if distributed by the employer to his employees, cannot be counted as a tip received in applying the provisions of section 3(m) and 3(t). Similarly, where negotiations between a hotel and a customer for banquet facilities include amounts for distribution to employees of the hotel, the amounts so distributed are not counted as tips received. Likewise, where the employment agreement is such that amounts presented by customers as tips belong to the employer and must be credited or turned over to him, the employee is in effect collecting for his employer additional income from the operations of the latter's establishment. Even though such amounts are not collected by imposition of any compulsory charge on the customer, plainly the employee is not receiving tips within the meaning of section 3(m) and 3(t). The amounts received from customers are the employer's property, not his, and do not constitute tip income to the employee.

(b) As stated above, service charges and other similar sums which become part of the employer's gross receipts are not tips for the purposes of the Act. However, where such sums are distributed by the employer to his employees, they may be used in their entirety to satisfy the monetary requirements of the Act. Also, if pursuant to an employment agreement the tips received by an employee must be credited or turned over to the employer, such sums may, after receipt by the employer, be used by the employer to satisfy the monetary requirements of the Act. In such instances, there is no applicability of the 50-percent limitation on tip credits provided by section 3(m).

§531.56 "More than $20 a month in tips."

(a) *In general.* An employee who receives tips, within the meaning of the Act, is a "tipped employee" under the definition in section 3(t) when, in the occupation in which he is engaged, the amounts he receives as tips customarily and regularly total "more than $20 a month." An employee employed in an occupation in which the tips he receives meet this minimum standard is a "tipped employee" for whom the wage credit provided by section 3(m) may be taken in computing the compensation due him under the Act for employment in such occupation, whether he is employed in it full time or part time. An employee employed full time or part time in an occupation in which he does not receive more than $20 a month in tips customarily and regularly is not a "tipped employee" within the meaning of the Act and must receive the full compensation required by its provisions in cash or allowable facilities without any deduction for tips received under the provisions of section 3(m).

(b) *Month.* The definition of tipped employee does not require that the calendar month be used in determining whether more than $20 a month is customarily and regularly received as tips. Any appropriate recurring monthly period beginning on the same day of the calendar month may be used.

(c) *Individual tip receipts are controlling.* An employee must himself customarily and regularly receive more than $20 a month in tips in order to qualify as a tipped employee. The fact that he is part of a group which has a record of receiving more than $20 a month in tips

will not qualify him. For example, a waitress who is newly hired will not be considered a tipped employee merely because the other waitresses in the establishment receive tips in the requisite amount. For the method of applying the test in initial and terminal months of employment, see §531.58.

(d) *Significance of minimum monthly tip receipts.* More than $20 a month in tips customarily and regularly received by the employee is a minimum standard that must be met before any wage credit for tips is determined under section 3(m). It does not govern or limit the determination by the employer or the Secretary of Labor of the appropriate amount (up to 50 percent of the minimum wage) of wage credit under section 3(m) that may be taken for tips.

(e) *Dual jobs.* In some situations an employee is employed in a dual job, as for example, where a maintenance man in a hotel also serves as a waiter. In such a situation the employee, if he customarily and regularly receives at least $20 a month in tips for his work as a waiter, is a tipped employee only with respect to his employment as a waiter. He is employed in two occupations, and no tip credit can be taken for his hours of employment in his occupation of maintenance man. Such a situation is distinguishable from that of a waitress who spends part of her time cleaning and setting tables, toasting bread, making coffee and occasionally washing dishes or glasses. It is likewise distinguishable from the counterman who also prepares his own short orders or who, as part of a group of countermen, takes a turn as a short order cook for the group. Such related duties in an occupation that is a tipped occupation need not by themselves be directed toward producing tips.

§531.57 Receiving the minimum amount "customarily and regularly."

The employee must receive more than $20 a month in tips "customarily and regularly" in the occupation in which he is engaged in order to qualify as a tipped employee under section 3(t). If it is known that he always receives more than the stipulated amount each month, as may be the case with many employees in occupations such as those of waiters, bellhops, taxicab drivers, barbers, or beauty operators, the employee will qualify and the tip credit provisions of section 3(m) may be applied. On the other hand, an employee who only occasionally or sporadically receives tips totaling more than $20 a month, such as at Christmas or New Years when customers may be more generous than usual, will not be deemed a tipped employee. The phrase "customarily and regularly" signifies a frequency which must be greater than occasional, but which may be less than constant. If an employee is in an occupation in which he normally and recurrently receives more than $20 a month in tips, he will be considered a tipped employee even though occasionally because of sickness, vacation, seasonal fluctuations or the like, he fails to receive more than $20 in tips in a particular month.

§531.58 Initial and terminal months.

An exception to the requirement that an employee, whether full-time, part-time, permanent or temporary, will qualify as a tipped employee only if he customarily and regularly receives more than $20 a month in tips is made in the case of initial and terminal months of employment. In such months the purpose of the provision for tipped employees would seem fulfilled if qualification as a tipped employee is based on his receipt of tips in the particular week or weeks of such month at a rate in excess of $20 a month, where the employee has worked less than a month because he started or terminated employment during the month.

§531.59 The tip wage credit.

In determining compliance with the wage payment requirements of the Act, under the provisions of section 3(m) the amount paid to a tipped employee by an employer is deemed to be increased on account of tips by an amount which cannot exceed 50 percent of the minimum wage applicable to such employee in the workweek for which the wage payment is made. This credit is in addition to any credit for board, lodging, or other facilities which may be allowable under section 3(m). The credit allowed on account of tips may be less than 50 percent of the applicable minimum wage; it cannot be more. The actual amount is left by the statute to determination by the employer on the basis of his information concerning the tipping practices and receipts in his establishment. However, section 3(m) provides that an employee who can show to the satisfaction of the Secretary of Labor that the actual amount of tips received by him was less than the amount determined by the employer as a tip credit shall receive an appropriate wage adjustment. See §531.50(a). As stated in Senate Report No. 1487 (89th Cong.

2d sess.), it is presumed that in the application of this special provision the employee will be receiving at least the maximum tip credit in actual tips: "If the employee is receiving less than the amount credited, the employer is required to pay the balance so that the employee receives at least the minimum wage with the defined combination of wages and tips." Provision is made in §531.7 for employee requests for review of tip credit determinations made by employers, in the event that the employee considers that the tip credit taken exceeds his actual tips. As indicated in §531.51, the tip credit may be taken only for hours worked by the employee in an occupation in which he qualifies as a "tipped employee." Under employment agreements requiring tips to be turned over or credited to the employer to be treated by him as part of his gross receipts, it is clear from the legislative history that the employer must pay the employee the full minimum hourly wage, since for all practical purposes the employee is not receiving tip income. See also §531.54.

§531.60 Overtime payments.

(a) When overtime is worked by a tipped employee who is subject to the overtime pay provisions of the Act, his regular rate of pay is determined by dividing his total remuneration for employment (except statutory exclusions) in any workweek by the total number of hours actually worked by him in that workweek for which such compensation was paid. (See Part 778 of this chapter for a detailed discussion of overtime compensation under the Act.) In accordance with section 3(m), a tipped employee's regular rate of pay includes the amount of tip credit taken by the employer (not in excess of 50 percent of the applicable minimum wage), the reasonable cost or fair value of any facilities furnished him by the employer, as authorized under section 3(m) and this Part 531, and the cash wages including commissions and certain bonuses paid by the employer. Any tips received by the employee in excess of the tip credit need not be included in the regular rate. Such tips are not payments made by the employer to the employee as remuneration for employment within the meaning of the Act.

PART 536—AREA OF PRODUCTION

Sec.

536.1 "Area of production" as used in section 7(c) of the Fair Labor Standards Act.
536.2 "Area of production" as used in section 13(a)(10) of the Fair Labor Standards Act.
536.3 "Area of production" as used in section 13(a)(17) of the Fair Labor Standards Act.
536.4 Petition for amendment of regulations.

AUTHORITY: 52 Stat. 1060; 29 U.S.C. 201 et seq., unless otherwise noted.

SOURCE: 27 FR 400, Jan. 13, 1962, unless otherwise noted.

§536.1 "Area of production" as used in section 7(c) of the Fair Labor Standards Act.

(a) An employer shall be regarded as engaged in the first processing of any agricultural or horticultural commodity during seasonal operations within the "area of production" within the meaning of section 7(c) of the Fair Labor Standards Act if he is so engaged in an establishment which is located in the open country or in a rural community and in which such first processing is performed on commodities 95 percent of which come from normal rural sources of supply located not more than the following airline distances from the establishment:

(1) With respect to grain, soybeans, eggs, or tobacco—50 miles;

(2) With respect to any other agricultural or horticultural commodities—20 miles.

(b) For the purpose of this section:

(1) "Open the country or rural community" shall not include any city, town, or urban place of 2,500 or greater population or any area within:

(i) One air-line mile of any city, town, or urban place with a population of 2,500 up to but not including 50,000, or

(ii) Three air-line miles of any city, town, or urban place with a population of 50,000 up to but not including 500,000, or

(iii) Five air-line miles of any city with a population of 500,000 or greater, according to the latest available United States Census.

(2) The commodities shall be considered to come from "normal rural sources of supply" within the specified distances from the establishment if they are received (i) from farms within such specified distances, or (ii) from farm assemblers or other establishments through which the commodity customarily moves, which are within such specified distances and located in the open country or in a rural community, or (iii) from farm assemblers or other establishments not located in the open country or in a rural community provided it can be demonstrated that the commodities were produced on farms within such specified distances.

STEAK AND ALE L SIMEK
3812 WILLIAM PENN HGWY
MONROEVILLE PA 15235

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CONGRESSMAN JOHN DENT
WASHINGTON DC 20515

DEAR MR DENT

IF BILL HR3744 IS PASSED I FEEL IT WOULD JEOPARDIZE EMPLOYMENT FOR MYSELF AND OTHERS IN THE INDUSTRY AS IT WILL CAUSE MY EMPLOYER TO RAISE PRICES TO OUR CUSTOMERS AND REDUCE THE NUMBER OF EMPLOYEES I URGE YOU TO RETAIN TIP CREDIT AT THE PRESENT 50 PERCENT ALLOWANCE.

LEWIS R SIMEK
220 ELIZABETH AVE
EAST PITTSBURGH PA 15112

23:13 EST

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MAILGRAM SERVICE CENTER
MIDDLETOWN, VA. 22645

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CONGRESSMAN JOHN DENT
ROOM 2104 RAYBURN HOUSE OFFICE BLDG
WASHINGTON DC 20515

IF BILL HR3744 IS PASSED I FEEL IT WOULD JEOPARDIZE EMPLOYMENT FOR MYSELF AND OTHERS IN THE INDUSTRY AS IT WOULD CAUSE MY EMPLOYER TO RAISE PRICES TO OUR CUSTOMERS AND REDUCE NUMBER OF EMPLOYEES, I URGE YOU TO RETAIN TIP CREDIT WITH PRESENT 50 PERCENT ALLOWANCE

NANCY WOOD
1772 MOUNTAINVIEW DR
MONROEVILLE PA 15146

21:57 EST

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MAILGRAM SERVICE CENTER
MIDDLETOWN, VA. 22645

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CONGRESSMAN JOHN DENT
ROOM 2104 RAYBURN HOUSE OFFICE BLDG
WASHINGTON DC 20515

DEAR MR DENT

IF BILL HR3744 IS PASSED I FEEL IT WOULD JEOPARDIZE EMPLOYMENT FOR MY EMPLOYEES AND OTHERS IN THE INDUSTRY AS IT WOULD CAUSE ME TO RAISE PRICES TO MY CUSTOMERS AND REDUCE THE NUMBER OF EMPLOYEES. I URGE YOU TO RETAIN TIP CREDIT AT THE PRESENT 50 PERCENT ALLOWANCE

GUY R GREGG

21:55 EST

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MAILGRAM SERVICE CENTER
MIDDLETOWN, VA. 22645

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CONGRESSMAN JOHN H. DENT
STATE CAPITOL DC 20515

MR DENT

IF BILL HR3744 IS PASSED I FEEL IT WOULD HURT MY JOB AS AN EMPLOYEE THIS WOULD ALSO HURT THE INDUSTRY AS A WHOLE BECAUSE OF REDUCED SERVICE PRICES WOULD BE INCREASED AND SERVICE LESSENED PLEASE RETAIN TIP CREDIT FOR EMPLOYEES AT THE PRESENT 50 PERCENT ALLOWANCE THANK YOU

JACK KIMRELL

21:56 EST

MGMCOMP MGM

The CHAIRMAN. Now we will turn to our panel on tip credit, the Hotel and Motel Association, the National Restaurant Association, and the Food Service and Lodging Institute.

We welcome you, gentlemen. We appreciate your adding your thoughts to our deliberations here in this matter.

We had better get you identified for the record.

Mr. LENNON. I am Thomas J. Lennon, president of the Homestead Hotel in Hot Springs, Va. I am also chairman of the Governmental Affairs Committee of the American Hotel and Motel Association.

Mr. BENEFIELD. Richard Benefield, general manager of the Hotel Magee in Bloomsburg, Pa., and a member of the Government Affairs Committee of the American Hotel and Motel Association.

Mr. EURE. Mr. Chairman, I am Thad Eure, Jr., vice president of the National Restaurant Association, and I am also one of the owners of the Angus Barn Restaurant in Raleigh, N.C.

Mr. NEVILLE. I am Robert Neville, I am counsel here in Washington.

Mr. HUNT. Mr. Chairman, I am Pfilip Hunt, vice president of Corporate Affairs and general counsel of Morrison's, Inc., headquartered in Mobile, Ala.; I am also on the board of directors of the Food Service and Lodging Institute. Accompanying me is Mr. William Giery who is executive secretary of Food Service and Lodging Institute.

The CHAIRMAN. We have of course the various States, Virginia, Pennsylvania, North Carolina, and Alabama; that is very interesting, not one of those States deals with tip credit on the list here, having repealed or reduced it.

So, while you are in the minority, certainly I can see why you are here in a representative capacity. But it is interesting, if this bill should become law, it would clearly deal with your establishments.

STATEMENTS OF THOMAS J. LENNON, CHAIRMAN, GOVERNMENTAL AFFAIRS COMMITTEE, AMERICAN HOTEL AND MOTEL ASSOCIATION, ACCOMPANIED BY RICHARD BENEFIELD, MEMBER, GOVERNMENTAL AFFAIRS COMMITTEE, AND AL McDERMOTT, WASHINGTON REPRESENTATIVE, THAD A. EURE, JR., VICE PRESIDENT, NATIONAL RESTAURANT ASSOCIATION, ACCOMPANIED BY ROBERT NEVILLE, WASHINGTON COUNSEL, PFILIP G. HUNT, VICE PRESIDENT AND GENERAL COUNSEL, MORRISON'S, INC., FOOD SERVICE AND LODGING INSTITUTE, ACCOMPANIED BY WILLIAM G. GIERY, EXECUTIVE SECRETARY, A PANEL

Mr. NEVILLE. Mr. Chairman, I would like to note for the record that 42 States recognize tips in one form or another. So, it is not down to a minority of States.

The CHAIRMAN. In one form or another, that is true. But where the tip credit has been reduced, in most of the States where that has happened, they have a much lower minimum wage.

California became large in our deliberations because from that State came a private study and government figures; that is why we talk about California so much.

Mr. LENNON. One of the things, Mr. Chairman, on the California study that was not mentioned—they said there was an increase in the

restaurant and hotel business, but they did not mention the fact that there was an increase in the population of the State of California, and an increase in the number of hotels, and an increase in the number of residents after they repealed it. So, that had an impact, too.

Also, in the statement they read just before we came on here they said that in 1966, when the minimum wage was brought into effect, after the minimum wage came into effect there were more people employed, that employment increased; there was also an increase in the number of jobs. But I can tell you, Mr. Chairman, that since the minimum wage has been put into effect the number of employees per room, or per customer served in restaurants has reduced greatly, and it will be reduced as the minimum wage increases.

Now, there might be more people working, and that is because there are more jobs, more restaurants, more hotels. The population has increased since 1965. They did not mention that.

The CHAIRMAN. That is one of the demographic factors that I guess is obvious and does not have to be mentioned. But I am glad it has been because of those to whom it is not obvious. We certainly do know in California there has been a substantial population increase.

Mr. NEVILLE. Mr. Chairman, with respect to the California figures, since you are considering those right now, I think in your deliberations in accepting the figures of the California Equalization Board you should know, No. 1, that those figures were included in the study that the National Restaurant Association asked be done by a reputable and nationwide accounting firm. Their survey of the impact of the loss of tip credit and the increase of the minimum wage from $2 to $2.50 in California, included those figures in the study. Also, the Equalization Board figures do not relate to any particular type of food service.

The CHAIRMAN. I appreciate that it is not finely tuned to the type of establishment; I agree. The last figures that I have seen are aggregate figures, rather than figures relating to the nature of the establishment. I remember when we first started the "fast food." I remember back a long time ago they had methods of making food available for customers that I had never seen in the East. That is where fast food started. I am advised that McDonald's started in L.A., and they were late on the scene. They started what, 20 years ago.

Mr. NEVILLE. In 1960.

The CHAIRMAN. Back in the thirties and forties they had fast food services. The youngsters are not expected to know that.

Mr. LENNON. Mr. Chairman, I forgot to mention, I am accompanied by our counsel, Albert McDermott, here today.

The CHAIRMAN. We are pleased to have you.

Mr. LENNON. According to Laventhol & Horwaith, a widely recognized accounting firm in the hotel-motel industry, it is impossible to measure the ultimate economic effects of changes in the FLSA, as drastic as they are, since each hotel or motel operator would have several options if the amendments are enacted. However, the magnitude of the financial impact can be projected by measuring the total cost of each of the key changes separately in terms of projected costs, employment, profitability, and prices.

These impact figures which follow would be drastically increased in the case of tipped employees if Congress redefines a tipped employee from one who now receives $20 a month in tips as S. 1871 attempts to do. This is an amazing one-step jump of almost seven times the present

statutory test in the first effective years, with additional unknown increases in subsequent years. It would be devastating not only in the case of part time but full time tip employees. We do not have a tabulation on this proposed change.

Now, let us look at the next 2 years.

Based on statistics compiled by the U.S. Departments of Labor and Commerce, covering hotel and motel nonsupervisory and tipped employees, the projected cost to the U.S. lodging industry of the proposed changes in the FLSA would be $454 to $579 million in 1978, and $871 to $1,103 million in 1979. The aggregate amount within those ranges will depend upon the actual ripple effect, which has ranged between 50 percent and 140 percent following previous changes in the minimum wage. We selected a range of 50 to 70 percent.

If the full cost of the increase in the minimum wage and repeal of the tip credit were to be offset by cutting back on the number of employees in hotels and motels, there would be at least 75,000 to 94,000 fewer jobs in 1978, and a loss of at least 120,000 to 144,000 additional jobs in 1979, excluding the compounding negative effects of a reduction in quality of guest service.

Based on recent lodging industry profit margins, the full amount of the increases in payroll costs would be approximately twice the industry's projected pretax income in 1978, and four to five times projected 1979 pretax income. If the full costs are to be absorbed by increases in the price of lodging services, the result would be price increases of 4 to 5 percent in 1978 and 7 to 9 percent in 1979 to offset the higher labor cost. This would be in addition to the rapidly rising costs of other purchased goods and services, especially energy costs, which are expected to rise by over 20 percent.

I would now like to analyze three major portions of S. 1871.

The elimination of the tip credit would reduce the existing tip credit:

(a) To 45-percent effective January 1, 1978. The proposed wage and reduction would result in a direct wage cost increase of 26 percent in the case of each employee where a full tip credit is now taken.

(b) To 40-percent effective January 1, 1979. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977, of 50 percent in the case of each employee where a full-tip credit is now taken. This 50-percent increase would take place over a period of a year and a day.

(c) To 30 percent effective January 1, 1980. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977 of 91 percent in the case of each employee where a full tip credit is now taken. This 91-percent increase would take place over a period of 2 years and a day.

(d) To 20 percent effective January 1, 1981. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977 of 137 percent in the case of each employee where a full tip credit is now taken. This 137-percent increase would take place over a period of 3 years and a day.

(e) To 10 percent effective January 1, 1982. The proposed wage and reduction would result in a direct wage increase from December 31, 1977 of 185 percent in the case of each employee where a full tip credit

is now taken. This 185-percent increase would take place over a period of 4 years and a day.

(f) To zero, effective January 1, 1983. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977 of 239 percent in the case of each employee where a full tip credit is now taken. This 239-percent increase would take place over a period of 5 years and a day.

If the 50-percent credit now permitted by the Federal minimum wage law for tips is to be eliminated, as called for in S. 1871, it may result in operations charging a service charge to a guest. It will mean all employees will receive the same remuneration for their services. It will reward the mediocre employee with high income and penalize the superior employee with lower income than now enjoyed. This change will destroy the incentive to serve graciously and something vital will be lost to our industry. The moment you add a service charge and the customer continues to tip, you have automatically raised prices to the purchaser.

The present law insures that employees receive at least the minimum wage. The proposal to abolish the "tip credit" does not set a minimum wage standard, but provides the "framework" by Government fiat for a much higher wage for tip employees than other employees covered by the Federal law. Such a result was never intended when it became a U.S. policy to establish "minimum" standards under the Fair Labor Standards Act.

In 1974, Mr. Chairman, your committee reexamined the role of tips as wages, and the concept of allowing tips to be counted as part of the minimum wage.

Your committee was impressed by the extent to which customers' tips contributed to the earnings of some hotel and restaurant employees, as was evidenced by the Department of Labor survey. Your committee was persuaded that the tip allowance could not be reduced at this time.

There is no objective information or data which would justify Congress to arrive at a different conclusion from that which your committee made in 1974.

The minimum wage increases.

Increase the minimum wage to $2.65 per hour, effective January 1, 1978. This would represent a direct wage increase of 15 percent for nontipped employees.

To $2.89 per hour, effective January 1, 1979, based on 52 percent of manufacturing wage. This would represent a direct wage increase of 26 percent for nontipped employees over a period of a year and a day.

To $3.15 per hour, effective January 1, 1980, based on 53 percent of manufacturing wage. This would represent a direct wage increase of 37 percent for nontipped employees over a period of 2 years and a day.

And to $3.40 per hour, effective January 1, 1981, based on 53 percent of manufacturing wage. This would represent a direct wage increase of 48 percent for nontipped employees over a period of 3 years and a day.

And to $3.65 per hour, effective January 1, 1982, based on 53 percent of manufacturing wage. This would represent a direct wage increase of 59 percent for nontipped employees. This 59 percent increase would take place over a period of 4 years and a day.

And to $3.90 per hour effective January 1, 1983 based on 53 percent of manufacturing wage. This would represent a direct wage increase

from December 31, 1977 of 70 percent for nontipped employees. This 70-percent increase would take place over a period of 5 years and a day.

These estimates are based on the average straight time hourly earnings of production workers in manufacturing.

The wage increases provided in prior statutory amendments by Congress were more realistic than the wage increases recommended in S. 1871 by the use of the manufacturing index. These comparisons are found on pages 14 and 16 of our detailed statement which we have filed.

The size of the impact in the minimum wage plus the reduction and later repeal of the tip credit will cause "deep trouble" for our industry and for employment opportunities in many communities throughout the country. Not only will many employees in hotels and motels have to receive substantial increases in wages under the terms of S. 1871, but all along the line employees above the minimum will have to receive increased wages in order to maintain working differentials.

INDEXING

Whereas the concept of indexing may have some merit if it eliminates the agonizing process by which the legislation is presently enacted, the proposal to use the annual hourly earnings of manufacturing as a base and the percentage relationship proposed are economically unsound as far as the lodging industry is concerned. The proposal suggests an index for the minimum wage based upon the average hourly wage in manufacturing where the sales generated by an employee are nearly three times those produced by an employee in the lodging industry. The following tabulation is based on data available for October 1976. That is listed in the statement, the table on page 22. I will not read it.

If the minimum wage is indexed to the average hourly rate in manufacturing, there is no way to achieve a comparable level of productivity in the lodging industry, unless prices for accommodations and other hotel services are increased 75 percent. Since that would seriously reduce occupancy, the goal could not be achieved.

We have serious reservations about the concept of indexing the minimum wage which can only lead to increased inflation. We are concerned about the built-in multiplier effects on future minimum wage determinations which such a legal provision would entail. Indexing the minimum wage would be an important step toward adopting indexing as a matter of national policy.

We do not belong to the manufacturing industry. We are a service industry and our wages should be related to our industry and our problems—and not to the manufacturing industry as a whole. We do not operate on an 8-hour day, 5-day-a-week basis. We operate 7 days a week, 24 hours a day, and 365 days a year. We cannot control wage costs like the manufacturing industry. The problem is even more aggravated when you consider the specialized problems of the resort properties, many of which are in remote areas, drawing on a local, isolated work force. We also feel that it would be improper to index our wages against the manufacturing industry's average wage because the manufacturing industry is subject to entirely different collective bargaining arrangements.

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Many collective bargaining contracts provide for productivity wage improvement factors. Many manufacturing industries engage in mass production. Automation, new technology or new products can substantially increase productivity, reducing costs. It is customary in the collective bargaining in such industries to pass some of these labor-savings on to labor as wage increases. Our industry has no such automation, new technology, or new products to absorb labor costs.

Finally, to fix the operation of indexing the minimum wage for our industry at the unrealistic minimum wage rate of 53 percent of the average straight-time hourly earnings of production workers in manufacturing is unfair and will be counterproductive in terms of providing employment opportunities. When you consider the proposed elimination of the tip credit, the unfairness of the proposal is greatly escalated. Our industry cannot adjust to such drastic and uneconomic cost increases and remain viable and continue to offer the services, and accommodations that have characterized our operations in the past. This legislation will deal a body blow to our industry as we know it today.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Lennon follows:]

August 4, 1977

STATEMENT OF THE

AMERICAN HOTEL & MOTEL ASSOCIATION

BEFORE THE

SENATE SUBCOMMITTEE ON LABOR

ON

S. 1871

I am Thomas J. Lennon, President of Virginia Hot Springs, Inc. I am also Chairman of the Governmental Affairs Committee of the American Hotel & Motel Association, which is a federation of hotel and motel associations located in the fifty states, the District of Columbia, Puerto Rico, and the Virgin Islands, having a membership in excess of 6,500 hotels and motels containing in excess of 850,000 rentable rooms. The American Hotel & Motel Association maintains offices at 888 Seventh Avenue, New York City, and at 777 - 14th Street, N.W., Washington, D.C.

With me today are Richard A. Benefield, General Manager of the Hotel Magee in Bloomsburg, Pa., and a member of AH&MA's Governmental Affairs Committee, who will discuss the impact of the proposed legislation on the smaller hotels and motels; and Albert L. McDermott, Washington Representative of AH&MA.

I appreciate the opportunity of appearing before this Subcommittee to discuss the effect which the proposed Amendments to the federal minimum wage and hour law would have on employment and earning power in our industry.

For over 28 years, the Congress of the United States saw fit to exclude the hotel-motel industry from coverage under the federal wage and hour law; and for over 36 years the industry had a complete exemption from the overtime requirements. The Amendments

of 1974 imposed major problems of cost and adjustment upon our industry in increasing the minimum wage and partially eliminating our overtime exemption. The minimum wage just went up from $2.20 an hour to $2.30, effective January 1, 1977. Overtime for maids and custodial workers was reduced to 40 hours on May 1, 1977, and our other employees' overtime standard is 46 hours. Our industry is required to operate 24 hours a day, seven days a week, 52 weeks a year, to provide the services and amentities that the American public demands and which our industry takes great pride in providing. Additionally, our industry has been subjected to an increasing amount of federal and state regulations which are constantly pushing up our costs and adding further inflationary pressures to our economy. We witnessed with deep regret the complete elimination of American cruise ships in the multi-million dollar business because of the regulated labor and other costs which drove American operators from this business and we do not want to see such a catastrophe happen to members of our industry.

To impose on our operations the drastic requirements in the proposed bill before we have adjusted completely to the current legislative mandates is wrong for the country, the hotel-motel industry, and the labor it employs. It would produce an unequal and intolerable impact on the lodging industry.

According to Laventhol & Horwath, a widely recognized accounting firm in the hotel-motel industry, it is impossible to measure the ultimate economic effects of changes in the FLSA, as drastic as they are, since each hotel or motel operator would have several options if the Amendments are enacted. However, the magnitude of the financial impact can be projected by measuring the total cost of each of the key changes separately in terms of projected costs, employment, profitability and prices.

These impact figures which follow would be drastically increased in the case of "tipped employees" if Congress redefines a tipped employee from one who now receives $20 a month in tips to one who must receive at least a projected $135 a month in tips as S. 1871 attempts to do. This is an amazing one step jump of almost seven times the present statutory test in the first effective years, with additional unknown increases in subsequent years. It would be devastating not only in the case of "part-time" but "full-time" tip employees. We do not have a tabulation on this proposed change.

Let us look at the next two years.

Impact of the Proposed Increase

Based on statistics compiled by the U.S. Departments of Labor and Commerce, covering hotel and motel non-supervisory and tipped employees, the projected cost to the U.S. lodging industry of the proposed changes in the FLSA would be $454 to $579 million in 1978 and $871 to $1,103 million in 1979. The aggregate amount within those ranges will depend upon the actual ripple effect, which has ranged between 50 percent and 140 percent following previous changes in the minimum wage. We selected a range of 50 to 70 percent.

Effect on Employment

If the full cost of the increase in the minimum wage and repeal of the tip credit were to be offset by cutting back on the number of employees in hotels and motels there would be at least 75,000 to 94,423 fewer jobs in 1978 and a loss of at least 120,000 to 144,000 additional jobs in 1979 (excluding the compounding negative effects of a reduction in quality of guest service).

Effect on Profit and Prices

Based on recent lodging industry profit margins, the full amount of the increases in payroll costs would be approximately twice the industry's projected pre-tax income in 1978 and four to five times projected 1979 pre-tax income. If the full costs are to be absorbed by increases in the price of lodging services, the result would be price increases of four to five percent in 1978 and seven to nine percent in 1979 to offset the higher labor cost. This would be in addition to the rapidly rising costs of other purchased goods and services, especially energy costs, which are expected to rise by over 20 percent.

I would now like to analyze three major portions of S. 1871.

ELIMINATION OF TIP CREDIT

S. 1871 would:

1. Reduce the existing "tip credit":

a) To 45 percent effective January 1, 1978. The proposed wage and reduction would result in a direct wage cost increase of 26 percent in the case of each employee where a full tip credit is now taken.

b) To 40 percent effective January 1, 1979. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977 of 50 percent in the case of each employee where a full tip credit is now taken. This 50 percent increase would take place over a period of a year and a day.

c) To 30 percent effective January 1, 1980. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977 of 91 percent in the case of each employee where a full tip credit is now taken. This 91 percent increase would take place over a period of two years and a day.

d) To 20 percent effective January 1, 1981. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977 of 137 percent in the case of each employee where a full tip credit is now taken. This 137 percent increase would take place over a period of three years and a day.

e) To 10 percent effective January 1, 1982. The proposed wage and reduction would result in a direct wage increase from December 31, 1977 of 185 percent in the case of each employee where a full tip credit is now taken. This 185 percent increase would take place over a period of four years and a day.

f) To zero, effective January 1, 1983. The proposed wage and reduction would result in a direct wage cost increase from December 31, 1977 of 239 percent in the case of each employee where a full tip credit is now taken. This 239 percent increase would take place over a period of five years and a day.

This proposed bill provides for a major and far reaching change in the redefinition of a tipped employee to make the present 50 percent minimum wage tip credit inapplicable to a large number of employees who now qualify for the tip credit provision.

The bill defines "tipped employees" as those who receive more than a set figure per month in tips, the amount calculated by multiplying the average hours of employment per month for all tipped employees by the dollar amount of the tip credit allowed to the employer for the applicable period. In effect, this provision next year will raise the present floor from $20 per month to approximately $135 per month in tips received before an employee becomes subject to the tip credit. This amount will increase incrementally in succeeding years. Our industry has serious reservations as to the equity and wisdom of the bill's provision on tip credit. Its effect could be most drastic to our industry and

to the public it serves. The immediate doubling of direct wage payments is difficult to absorb and adjust.

We recommend a thorough study and investigation of this most important question based upon comprehensive and current data and information before any action is taken.

Also, the proposed method of defining tipped employees would present serious costly administrative problems in complying with the tip credit procedure. It appears from Section 4 that our industry would be confronted with a continuous changing statutory tip credit allowance. This will cause confusion among the employees, extra expense to the taxpayer through increased federal appropriation, and increased administrative costs to the employer in payroll administration.

If the 50 percent credit now permitted by the federal minimum wage law for tips is to be eliminated, as called for in S. 1871, it may result in operations charging a service charge to a guest. It will mean all employees will receive the same remuneration for their services. It will reward the mediocre employee with high income and penalize the superior employee with lower income than now enjoyed. This change will destroy the incentive to serve graciously and something vital will be lost to our industry.

We in the service industry have long recognized that the subject of tips has often been critized by the general public. However, when a hotel, motel or restaurant has attempted to ban tips, the patrons have usually insisted on bestowing gratuities and have ultimately broken down the plan. We are convinced that the adding of a service charge to a bill is not in the public interest for this simple reason. The moment you add a service charge and the customer continues to tip, you have automatically raised prices to the purchaser.

We have always insisted and the Labor Department's studies bare out our contention that hotel-motel employees who receive tips do pretty well.

The present tip credit provision is in the best interests of the employees, the customers, the industry and the country, and should be retained. If you desire to protect the earnings and interest of tipped employees, this is the wrong action and the employees will suffer a loss of income and the public a loss of service and amenities.

Tips are wages and income under our tax and employment laws and for other purposes. They have been recognized as "wages" under the FLSA and in all fairness should continue to be treated so. It's not "just" for the government to discriminate in its treatment. The present law insures that employees receive at least the minimum wage. The proposal to abolish the "tip credit" does not set a minimum wage standard but provides the "framework" by government fiat for a much higher wage for tip employees than other employees covered by the federal law. Such a result was never intended when it became a U.S. policy to establish "minimum" standards under the FLSA.

Congress should face squarely the fact that tipped employees receive income over which the employer has no control whatsoever, which income far exceeds the purposes of any minimum wage and hour law. It is a fact of life that many tipped employees earn between $15,000 and $20,000 a year. The proposal will result in the loss of jobs and tips to tens of thousands of employees. This proposal will legislate more unemployment.

Only three years ago, the Senate Committee on Labor and Public Welfare, on page 42 of the Report on the 1974 Amendments to the FLSA stated:

"The Committee reexamined the role of tips as wages and the concept of allowing tips to be counted as part of the minimum wage. The Committee reviewed the study of tips presented to the Congress by the Department of Labor in 1971 as well as provisions of state minimum wage laws which permit the counting of tips toward a minimum wage.

"The Committee was impressed by the extent to which customer tips contributed to the earnings of some hotel and restuarant employees in March 1970 (the date of the Labor Department survey). After reviewing the estimates in this report, the Committee persuaded that the tip allowance could not be reduced at this time, but that the tipped employee should have stronger protection to ensure the fair operation of this provision."

We know of no objective information or data which would justify the Congress to arrive at a different conclusion from that based on the above report.

The U.S. Department of Labor, Bureau of Labor Statistics recently reported (1975) Bulletin 1883, its Industry Wage Survey: Hotels and Motels, June 1973 for 24 metorpolitan areas. A partial summary of its findings is as follows:

"Tips contributed substantially to the earnings of employees in a number of hotel and motel service occupations, particularly those paid comparatively low wages by employers, such as customer lodging attendants (formerly called bellmen), waiters and waitresses, and their assistants (busboys and busgirls). The survey showed that employer-paid wages for table waiters and waitresses in full course restaurants averaged lower than waged paid their assistants in 23 of the 24 areas studied. When customer tips

were added to wages paid, however, this pattern was completely reversed; total hourly earnings averaged more for waiters and waitresses than for their assistants. Of the tipped employees studied, public bartenders usually averaged the highest in total hourly earnings, but rarely received 40 percent or more of their earnings in tips. Waiters and waitresses in cocktail lounges followed next in average hourly earnings, but received substantially larger proportions from customer tips."

This latest survey clearly supports the position taken by the Congress in connection with the 1974 Amendments when it provided for a tip credit of up to 50 percent. We direct the Subcommittee's attention to the highlights of the Department of Labor 1971 report on tips as further support of the action which Congress took in 1974.

"Eating and Drinking Places

"1. Tip earnings constitute the most important source of hourly income for the majority of tipped workers in covered eating and drinking places. When tips are added to the cash wage of tipped employees, the average hourly cash wages paid by the employer accounted for only 42 percent of the combined $2.89 average hourly earnings. Thus, customer generosity is a critical component in earnings of tipped employees.

"2. The survey data clearly show that utilization of that provision of the FLSA which permits an allowance of up to 50 percent of the minimum wage for tips actually received in arriving at the cash wage of a tipped employee, and the deduction of the reasonable cost of employer furnished perquisites, had a marked effect on the hourly cash wages of tipped employees as well as on the average hourly wage bill cost to employers of these workers;

"-Three-fourths of the tipped employees in the survey and four-fifths of all waiters and waitresses were paid cash wages of less than $1.45 an hour. Maximum use of the tip allowance was made for 17 percent of tipped employees. In all regions of the country, except the West, more than half of the tipped employees were paid cash wages at least 25 cents below the

$1.45 minimum wage applicable to covered non-tipped employees.

"-Elimination of the tip allowance would have required a 22 percent increase in the March 1970 hourly wage bill of the 323,900 employees in the three selected occupations in establishments with tipped employees to raise the cash wages for the 281,800 employees who were paid less than $1.45 an hour to that level. In the South the increase would have been 45 percent. Even in the relatively high wage Northeastern region, elimination of the tip allowance would have meant a 22 percent increase in the hourly wage bill.

"Year-Round Hotels and Motels

"1. Like covered eating and drinking places, tipped employees in covered year-round hotels and motels received substantial proportions of their total hourly compensation in tips rather than wages. When estimated tips were added to the cash wages of tipped employees, average hourly cash wages paid by the employer accounted for less than half of their combined $2.72 average hourly earnings.

"2. Although seven-tenths of the tipped employees had combined average hourly cash wages and tips of $2 or more an hour, only one-sixth of the non-tipped employees in the same occupations in tipping establishments earned as much as $2 an hour. Two-fifths of the non-tipped workers were at the minimum wage applicable to their employment.

"3. The inclusion of chambermaids as a tippable occupation in hotels and motels had the effect of raising average cash wages and lowering the estimated average hourly tips of tipped employees because employers were required to pay most of them at least $1.45 an hour since they did not qualify for the tipping allowance. In tipping establishments, only one-eight of the chambermaids qualified as tipped employees--received more than $20 a month in tips--and in establishments with no tipped employees, chambermaids comprised nine-tenths of the labor force in the five selected occupations.

"4. The tip allowance and employer furnished perquisites had a marked effect on the hourly cash wages of tipped employees and on the average hourly wage bill cost to employers of these workers;

"Two-thirds of all tipped employees were paid less than $1.45 an hour, as were four-fifths of the tipped waiters and waitresses. Because of the 50 percent tip allowance, 14 percent of the tipped employees were paid approximately half of the statutory $1.45 an hour maximum wage in March 1970. In all regions except the West, 40 percent or more of the tipped employees

were paid cash wages at least 25 cents below the $1.45 minimum wage applicable to non-tipped workers.

"-Elimination of the tip allowance and raising the wages of all employees earning less than $1.45 an hour to that level would have required an 11 percent increase in the hourly wage bill of the 164,400 employees in the selected occupations in covered hotel and motel establishments. Wage increases would have had to be given to 60,300 employees. The wage bill increase was substantially higher in the South (18 percent) but about the same in the Northeast and North Central regions.

"5. As in eating and drinking places, there was a negative correlation between average hourly cash wages and estimated average hourly tips of tipped employees. Tipped employees paid cash wages of less that $.75 an hour received estimated average hourly tips of $1.57 an hour, and those paid cash wages of between $1.25 and $1.45 an hour received estimated average hourly tips of $1.16 an hour.

"6. The estimated hourly wage bill increase required to raise the cash wages of tipped employees in the five selected occupations in covered year-round hotels and motels paid less than $.80 an hour--the net minimum wage assuming maximum use of the 50 percent tip allowance--and non-tipped employees paid less than $1.60 an hour to those levels was three percent for the United States as a whole and five percent in the South. The new minimum will require wage raises for 31 percent of the tipped and non-tipped employees in the selected occupations. Based on the March 1970 wage structure, the estimated cost of raising the wages of non-tipped employees from $1.45 to $1.60 an hour and eliminating the tip allowance, thereby raising the minimum nonfarm employees subject to the Fair Labor Standards Act, would require an increase of 17 percent and would affect 66 percent of the employees in the five selected occupations."

Both the Department of Labor 1971 and the BLS Hotel and Motel Wage Survey report (June 1973) strongly support the previous action of the Congress of establishing a tip credit of up to 50 percent, and we urge the Subcommittee to adopt a similar position and retain the present tip credit allowance.

Tip employees are a completely separate and special problem when one considers wage and hour legislation. I think it goes without saying that tipped employees are not "poverty stricken".

THE MINIMUM WAGE INCREASES

S. 1871 would:

1. Increase the minimum wage to:

a) $2.65 per hour, effective January 1, 1978. This would represent a direct wage increase of 15 percent for non-tipped employees.

b) $2.89 per hour, effective January 1, 1979 based on 52 percent of manufacturing wage.* This would represent a direct wage increase from December 31, 1977 of 26 percent for non-tipped employees. This 26 percent increase would take place over a period of a year and a day.

c) $3.15 per hour, effective January 1, 1980 based on 53 percent of manufacturing wage.* This would represent a direct wage increase from December 31, 1977 of 37 percent for non-tipped employees. This 37 percent increase would take place over a period of two years and a day.

d) $3.40 per hour, effective January 1, 1981 based on 53 percent of manufacturing wage.* This would represent a direct wage increase from December 31, 1977 of 48 percent for non-tipped employees. This 48 percent increase would take place over a period of three years and a day.

*These estimates are based on the average straight-time-hourly earnings of production workers in manufacturing.

e) $3.65 per hour, effective January 1, 1982 based on 53 percent of manufacturing wage.* This would represent a direct wage increase from December 31, 1977 of 59 percent for non-tipped employees.* This 59 percent increase would take place over a period of four years and a day.

f) $3.90 per hour, effective January 1, 1983 based on 53 percent of manufacturing wage.* This would represent a direct wage increase from December 31, 1977 of 70 percent for non-tipped employees.* This 70 percent increase would take place over a period of five years and a day.

Prior Amendments

The wage increases provided in statutory amendments by Congress have been more realistic than the wage increases recommended in S. 1871 by the use of the manufacturing index. Here is a comparison:

For Hotels, Motels, and Restaurants (By Statute)

February 1, 1967	$1.00 per hour
" 1, 1968	$1.15 per hour
" 1, 1969	$1.30 per hour
" 1, 1970	$1.45 per hour
" 1, 1971	$1.60 per hour
May 1, 1974	$1.90 per hour
January 1, 1975	$2.00 per hour
" 1, 1976	$2.20 per hour
" 1, 1977	$2.30 per hour

*These estimates are based on the average straight-time-hourly earnings of production workers in manufacturing.

Proposed S. 1871

January 1, 1978	$2.65 per hour
" 1, 1979	$2.89 per hour
" 1, 1980	$3.15 per hour*
" 1, 1981	$3.40 per hour*
" 1, 1982	$3.65 per hour*
" 1, 1983	$3.90 per hour*
" 1, 1984	$4.15 per hour*
" 1, 1985	$4.40 per hour*

Let's look at the history of annual statutory increases:

Seven Increases

1 - 10 cent/hr. annual increase

4 - 15 cent/hr. annual increase

1 - 20 cent/hr. annual increase

NOTE: Also, there was a 1 - 10 cent/hr. increase over a 6 month period (May, 1974 - January, 1975).

The above table discloses that since our industry was first covered, we faced increases which when coupled with credits toward the wage and an overtime exemption permitted the industry to adjust without disaster.

Now, let's look at the annual increase provided for in S. 1871 based on "indexing" through January 1, 1985.

Seven Increases

1 - 24 cent/hour annual increase

5 - 25 cent/hour annual increase

1 - 26 cent/hour annual increase

Also, it should be noted that when the last wage increase under the 1966 Amendments took place on February 1, 1971, it was $1.60 per hour. It was three years and three months later

*Projected

on May 1, 1974 when the wage was increased to $1.90 (30¢ an hour). The last wage increase under the 1974 Amendments took place on January 1, of this year when it became $2.30 per hour. S. 1871, one year later on January 1, 1978 would increase the wage to $2.65 (35¢ an hour).

Not only will many employees in Hotels and Motels have to receive substantial increases in wages under the terms of S. 1871 but all along the line employees above the minimum will have to receive increased wages in order to maintain working differentials.

The size of the impact in the minimum wage plus the reduction and later repeal of the tip credit will cause "deep trouble" for our industry and for employment opportunities in many communities throughout the country.

It is important to realize that many employees in our industry are either in the youth category, or the elderly category; the handicapped; individuals only interested in seasonal work; and those who are entirely without any special skill. Many hotels and motels employ marginal workers to a significant extent of the payroll. As to these people, we believe the dignity of a job is much more important than a place on an unemployment or relief roll. Teenagers represent the largest group of unemployment workers today with 19 percent unemployed. Among minorities the rate of unemployment is nearly doubled at over 37 percent. The food-service industry alone is the largest employer in the retail industry with over five million employees. Over 30.4 percent of these workers are teenagers and about 68.7 percent are women. In addition, to the food service figures the impact in the hotel-motel industry would be substantially increased by employment in other occupations in the industry.

Recent studies have emphasized the harsh impact of minimum wage increases on teenagers. A recent study by Brookings Institute, Washington, D.C. concludes that "high minimum wages reduce full-time employment of teenagers substantially...teenagers have more to lose than to gain from higher minimum wages." Another study by Washington University, St. Louis, Missouri similarly concluded that "minimum wage legislation reduces youth employment; males, especially nonwhite males, are hardest hit."

The Wall Street Journal of February 14, 1977 reports an interview with Betty Jackson, a social worker in Dade County, Florida. Her experience is typical of the problems being faced by many social workers and others who are trying to desperately find jobs for the 37 percent unemployed minorities. She said that it would be awful for the kids if the federal authorities raise the minimum wage again. It's bad enough now but if the floor goes up again, the kids simply won't ever get hired. It would be a great paradox indeed if the good intentions to help these 37 percent unemployed minority workers resulted in the government regulating them out of jobs and served to increase the already large numbers of them unable to find employment.

We believe it will do a grave injustice to these people and to the economy if by artificially imposed standards we are compelled to remove them from our payroll. There is now greater cause than ever for Congress to recognize this problem and provide a "youth differential."

The hotel-motel industry suffered more than other industries during the oil embargo. We continue to be seriously concerned about the availability of fuel to operate our properties, the

availability of our customers to reach our properties and the substantial increases in all energy costs.

Respecting availability, our paramount concern is with adequate energy supplies. For instance, during the Arab oil embargo some of our members along the interstate system experienced occupancy drops in some months of approximately 25 percent from 1973.

Addressing the question of price, let me give you an example of the skyrocketing utility rates some of our members have experienced. One of our member hotels in the Orlando area of Florida experienced an electric bill of $8,400 and a fuel surcharge of $11,255 in just one month. With a low occupancy, it was unable to pass these costs along.

A leading hotel and motel accounting firm has reported that energy costs averaged $640 per room during 1975. That is a 14.3 percent increase over 1974. Every type of property is affected by these increased costs. The energy price hike in big city transient hotels was 9.2 percent. Hotels in smaller cities were hit with an average boost of 15.9 percent, while motels and motor hotels paid 18.6 percent more for energy. Hardest hit were the resorts with a 20.9 percent increase in the cost of heating, lighting and power. All indications point to continuing, substantial energy price increases in excess of 20 percent.

In short, while this Subcommittee is considering imposing additional labor costs under S. 1871 the hotel-motel owner is just now recovering from a period of low occupancies, is still faced with higher minimum wages, Federal, State and Local tax increases, sky-high utility costs and the inability to borrow from banks. The result of the recent energy crisis was that many properties did

not survive and loan moratoriums became commonplace. One chain of budget motels was forced to lay off almost one-third of its work force, with the majority being unskilled labor. One aspect of the energy problem alone can be seen from the following--Stephen Brener, Financial Editor for Hospitality, a trade magazine for the hotel-motel industry, states in The Washington Post of Sunday, February 20, 1977, the following:

> "Unless the new administration takes some action on energy conservation the effects of the cold spell, if it continues, will be to create a serious energy shortage. Most of the hotel and motels of today were built and planned when energy was cheap, so they are energy spenders rather than savers, and to change would cost millions which banks are not going to advance. He warned that major problems would start to show a year from now with staff reductions at many resorts and an inability to carry debt in properties just starting to come back from the recession of 1973-74."

Many older hotels continue to be closed or phased out. Increased costs for construction, labor and maintenance is seeing the industry, to some extent at least, turn to the construction of so-called budget properties. The overall budget, motel segment of the lodging industry, has grown rapidly in the past few years and now represents over 100,000 rooms. These properties, staffed with fewer employees, afford little of the amenities of the larger hotel-motel properties. Legislation which substantially increases our labor costs will further reduce the number of job opportunities available in our industry.

If further labor increases are going to be delegated by Congress to the whims of an unrelated "index" and if our work force is to continue at its same level, then such increases must be offset by higher room, food and beverage prices if hotels are to survive.

However, there is a point of diminishing return based on customer resistance to increased prices. Further rate increases will undoubtedly drive occupancies downward, causing more losses. Already experiencing low return on investment ratios that would not be accepted in other industries, the hotel-motel business is caught in an impossible bind.

I also wish to point out that labor cost increases will have a very serious impact upon the members of our industry in the Virgin Islands and Puerto Rico; who have to compete with other Caribbean Islands that have much lower wage scales. The islands have extremely high raw food costs due to the fact that nearly all the food is imported from the mainland and are continually faced with increasingly high overhead costs, including electrical, telephone, and water. A too rapid increase in their minimum wage rate could bring a substantial adverse effect on the hotel-motel industry in the islands, increase unemployment, and stifle the economic growth. We believe that this subcommittee should carefully reexamine the effect S. 1871 will have on the ability of Puerto Rico and the Virgin Islands to compete with their neighboring Caribbean Islands. This most drastic direct wage impact would present major problems.

Our ability to absorb past increases in the federal minimum wage has been due in great part to the reasonableness and logic behind the previous amendments. Never before has our industry been confronted with such massive and drastic direct wage increases. The only way we have been able to meet our obligations under the law and still survive has been due to our tip credit, our partial exemption from overtime, and the reasonable credit provided in the

law for meals and lodging. The continuation of these provisions in the law are extremely important if we are to successfully maintain and operate a viable hospitality industry that has provided the amenities and service to the American public and the overseas visitors in a superb style and recognized excellence.

INDEXING

Whereas the concept of indexing may have some merit if it eliminates the agonizing process by which the legislation is presently enacted, the proposal to use the annual hourly earnings of manufacturing as a base and the percentage relationship proposed are economically unsound as far as the lodging is concerned. The proposal suggests an index for the minimum wage based upon the average hourly wage in manufacturing where the sales generated by an employee are nearly three times those produced by an employee in the lodging industry. The following tabulation is based on data available for October, 1976:

	Manufacturing	Hotels, Motels and Tourist Courts
Sales (000's)	$193,592,000	$1,070,000
Employees (000's)	19,185	828.4
Hours worked weekly	40.0	31.7
Sales per hour	$ 28.36	$ 9.48

Source: Survey of Current Business, U.S. Department of Commerce; Employment and Earnings, U.S. Department of Labor; Monthly Selected Service Receipts, U.S. Department of Commerce.

If the minimum wage is indexed to the average hourly rate in manufacturing, there is no way to achieve a comparable level of productivity in the lodging industry, unless prices for accommodations and other hotel services are increased 75 percent. Since that would seriously reduce occupancy, the goal could not be achieved.

We have serious reservations about the concept of indexing the minimum wage which can only lead to increased inflation. We are concerned about the built in multiplier affects on future minimum wage determinations which such a legal provision would entail. Indexing the minimum wage would be an important step to-

ward adopting indexing as a matter of National policy. We do not agree that inflation has to be a way of economic life. The country is capable of taking appropriate anti-inflationary action, without aggravating the problem by the inclusion of the indexing provision in this labor law which has such broad application. The automatic indexing provision as proposed would be based on the average hourly earnings of production workers in the manufacturing industry.

We do not belong to the manufacturing industry. We are a service industry and our wages should be related to our industry and our problems--not to the manufacturing industry as a whole. We do not operate on an eight-hour day, five-days-a-week basis. We operate seven days a week, 24 hours a day and 365 days a year. We can't control wage costs like the manufacturing industry. The problem is even more aggravated when you consider the specialized problems of the resort properties, many of which are in remote areas, drawing on a local, isolated work force. We also feel that it would be improper to index our wages against the manufacturing industry's average wage because the manufacturing industry is subject to entirely different collective bargaining arrangements and many of the giants in this field, together with the unions, are in a position to arrange for what would amount to administered prices on the consumer. We cannot pass on such increased costs in a similar fashion.

In addition, many of the agreements in the manufacturing industry provide for automatic cost-of-living index increases which are recognized as having a multiplier affect on wage increases, pushing up wage costs and adding inflationary pressure to the economy. Also, many of these collective bargaining contracts pro-

vide for productivity wage improvement factors. Many manufacturing industries engage in mass production. Automation, new technology or new products can substantially increase productivity, reducing costs. It is customary in the collective bargaining in such industries to pass some of these labor savings on to labor as wage increases. Our industry has no such automation, new technology or new products to absorb labor costs.

We are not criticizing the collective bargaining and other considerations involved in the manufacturing industry in conducting their wage determination and cost programs. We are pointing out, however, that it is not appropriate to tie our industry in with the manufacturing industry. We have no commonality with that industry.

When you talk about indexing the minimum wage, you can't stop just there. What you are in fact doing is introducing in our industry annual indexing for all our industry's wage rates. Because once indexing is a legal obligation for minimum wage purposes, it will have a direct and related impact on our entire industry's wage structure. The multiplier affect of this cannot be ascertained now or accurately forecast in the future years.

Finally, to fix the operation of indexing the minimum wage for our industry at the unrealistic minimum wage rate of 53 percent of the average-straight-time-hourly earnings of production workers in manufacturing is unfair and will be counterproductive in terms of providing employment opportunities. When you consider the proposed elimination of the tip credit, the unfairness of the proposal is greatly escalated. Our industry cannot adjust to such drastic and uneconomic cost increases and remain viable and continue to offer the services and accommodations that have charac-

terized our operations in the past. This legislation will deal a body blow to our industry as we have known it.

It's difficult for our industry to think that Congress would want to force upon our industry such drastic wage and price increases which would be most inflationary and which would serve as a deterrent to increased employment opportunities.

* * * * *

S. 1871 does not attempt to change "existing overtime" provisions under the law. We trust that this view will prevail. However, we wish to point out to members of the Committee that any reduction in our overtime hours would result in additional increased costs to employers. More importantly, it could result in decreased job opportunities to employees.

We estimate that a reduction in our overtime exemption from 46 to 40 hours will result in a 15 percent increase in payroll and related costs. This would occur in all areas of the country, as hotels and motels are required to remain open 24 bours a day, seven days a week, not like manufacturing.

A reduction in overtime would result in a particularly acute problem in resorts and remote properties where employees, based on the property, desire to work long hours to earn more tip income. Their hours would have to be reduced if "overtime pay" after 40 hours were required. They would have less income. There would be less service. The answer is not to "hire more employees" because the prohibitive cost of additional housing to accommodate the extra employees would not make the additional feasible. The result is that the reduced hours will directly impact on employees and the customer he or she serves.

The CHAIRMAN. Thank you, very much, Mr. Lennon, you have given us a lot to digest. The whole statement is appreciated and it will be studied.

I am not going to start questions in detail right now. I notice we will not be able to continue this hearing throughout the morning in the usual way because the Senate is in session. So, let us do as much as we can before they "blow the whistle on us."

Mr. BENEFIELD. Mr. Chairman, my name is Richard Benefield. I am general manager of the Hotel Magee in Bloomsburg, Pa.

The CHAIRMAN. I have studied your statement, if you want to read it, fine; if you want to summarize it, fine.

Mr. BENEFIELD. It is a very short statement.

The CHAIRMAN. I will say this, I read it at midnight. Your statement did not discourage me by its length at that hour.

Mr. BENEFIELD. The Hotel Magee is a 64-room downtown hotel which has served our area since 1865.

I am very concerned about the legislation, probably because of the nature of our business. I would like to stay in business and continue to provide good employment for our over 100 loyal employees. I believe that the jobs we provide and the jobs which are provided by other smaller hotels and independent restaurants are vital.

This panel is on "tip credit," an area that I am particularly interested in. Our waitresses are all tipped employees and are paid from $1.15 to $1.50 an hour, plus fringe benefits, including paid vacations, Christmas bonuses, hospitalization and surgical benefits for themselves and their families.

Now, when I appeared before Congressman Dent's committee I was asked the question, why is there a differential, and that is a good question. The differential is based on this, our waitresses that work the evening meal make between $75 and $100 a night in tips. Our girls who work for breakfast and lunch make less tips, although substantially more than the minimum, something in the order of $15 to $30 for an 8-hour shift. The backup waitresses make less, but far more than the minimum. That is why there is the differential.

If there were no further inflation, which we all know is impossible, the total elimination of the tip credit based on the proposed increases in the minimum wage would cost our little hotel over $130,000 per year.

It would probably put us out of business. Now, there was a lot of discussion about that in California. I do not know California, what happened there, I just know there is no way we can absorb $130,000. Already many downtown hotels have gone. Those of us who have lived in smaller communities have seen the community hotel die. I think that this would be a very severe blow to any community.

But, what would be the immediate results as the tip credit would be gradually phased out? There is already a substantial disparity between the earnings of our waitresses and the earnings of our professionally qualified chefs, cooks, and supervisors. The waitresses make much more right now, and that is why I ask the question, has anyone actually spoken to waitresses who feel that it would be in their best interest to eliminate the tip credit?

Our chefs, cooks, and supervisors contribute greatly to the waitresses' tips because of the outstanding quality of food we serve, the

beautiful preparation of that food, and the efficiency of the preparation so that the waitress may serve the food promptly.

Now, I do not have any objection to a reasonable increase in the minimum wage, and to gradual increases thereafter because there seems to be no way to prevent inflation. But I do think further increases ought to be determined by the Congress, and not by an artificial index that you have no control over and we have no control over, and that does not relate to our industry.

Thank you very much.

The CHAIRMAN. Thank you very much. I was struck by your most successful hotels in Bloomsburg.

Mr. BENEFIELD. Yes, sir.

The CHAIRMAN. I should know more about Bloomsburg than I do. I recognize that communities have lost many of their center community hotels. I know in my home town that is exactly the situation. We have always contributed that to the fact that we were invaded by every possible motel chain imaginable.

Mr. BENEFIELD. Well, sir, our little town of Bloomsburg has about 10,000 people. Interstate 80 came along, and we have over 1,000 hotel rooms, Holiday, Sheraton, Howard Johnson, Red Roof, Quality. I have made the statement contrary to many downtown hotels, we think that is the greatest thing that has ever happened to us because we do not know of any other way to bring between 1,000 and 1,500 potential food and beverage customers within 8 miles of us night after night.

So, we are very happy with that competition.

The CHAIRMAN. Well, I am glad it has worked out for you, but it has not worked out that way in many communities. Elizabeth, N.J., I know, is one that has lost two city hotels to highways.

Mr. BENEFIELD. We have lost about $50,000 in the room business, and picked up $750,000 in the food and beverage business as a result of that. We are very happy about it.

The CHAIRMAN. I am sure you are.

Mr. BENEFIELD. We serve good food.

The CHAIRMAN. I am sure you do, you must have. I wonder if the waitresses ever tip the chefs.

Mr. BENEFIELD. They do not, and that is kind of a little bone of contention. But our chefs are all young people that we trained, and they have what you would really call a kind of thrill and desire, and ability to provide the kind of service that we have, in a community that has 17.8 percent unemployment.

People drive on the average of about an hour to eat at our place. Our minimum dinner price is $7.50. If some legislation that would pass would cause us to go to, say, $10 as a minimum, I think it would be very, very difficult.

The CHAIRMAN. Are you in Congressman Dent's district?

Mr. BENEFIELD. No, I am not in Congressman Dent's district, I am in Dan Flood's district.

The CHAIRMAN. All right, we will move on. Thank you very much.

Mr. EURE. Mr. Chairman, in light of your request that we limit our statement to 10 minutes, I have condensed our testimony. We have furnished you with a copy of our full testimony. I would like now to testify just partially on the high points of our full statement.

The CHAIRMAN. Very good.

Mr. EURE. As I told you before, sir, I am Thad Eure, Jr., and I am vice president of the National Restaurant Association. I am also one of the owners of the Angus Barn Restaurants in Raleigh, N.C.

The National Restaurant Association is a business league of over 5,000 corporations and several thousand individuals and partnerships operating all types of food service establishments in all States of the Union. Our membership includes affiliation with the restaurant associations of 47 States.

With over 500,000 establishments, the industry employs over 5 percent of the Nation's work force and, in 1976, contributed $78.6 billion to the country's gross national product. In retail business, our industry is the leading employer, has the most establishments, and is fourth in sales volume in our Nation.

In the past our association has endorsed increases in the minimum wage. We did so in 1971, 1972, and 1973. We cannot support S. 1871.

Our opposition is based upon the fact that S. 1871 predicts and encourages a rate of inflation far in excess of any of the administration's announced goals—and well above that acceptable and expected by our people. The increases in the basic minimum wage under this bill are 15.2 percent in January, an additional 9.1 percent a year later, and another 9 percent in January of 1980. This represents a cumulative increase of 37 percent over the next 2 years. These projections pertain only to the minimum wage as it applies to nontipped employees. The increases for tipped employees under this bill are much higher.

The announced purpose of this increase is to close the gap between the annual income provided by the minimum wage and the present poverty level for a nonfarm family of four.

This reasoning would have validity if the minimum wage law applied only to workers who provide the sole support for a family of four. But, like the rain from heaven, this law falls on everyone. The contention that the current minimum is a poverty wage also ignores the fact that the current minimum wage provides an annual income above the poverty level for families of one and two and three.

The point is that you cannot equate an hourly wage that applies to all workers, including single workers and workers living in a family with other workers, with the minimum income of a family of four. The impact of the minimum wage on poverty will vary according to the number of persons living on a given income.

To state it briefly, the first-year impact of both increasing the minimum wage to $2.65 and lowering the allowable tip allowance to 45 percent would be to increase the industry's labor costs by $1.9 billion or to put at risk working hours equivalent to the elimination of 420,000 jobs.

These are first-year effects only. The impact would increase annually. By 1980, the minimum would be at a projected $3.15, the tip credit at 30 percent, and the food service industry's labor costs would be up $4.9 billion over today's level, or require a reduction in working hours equivalent to the elimination of more than 900,000 jobs.

Obviously, employers will adopt a mix of strategies to meet these new costs. Some part of the increase would undoubtedly be reflected in higher menu prices, lower profits, reduced employee benefits, modification of serving styles to reduce the required number of workers,

liquidation of marginal small restaurants, and lowered capital investment in new restaurants. It is not possible to forecast what the balance would be. It is clear, however, that S. 1871 would have a pronounced combination of inflationary and unemployment consequences. In this regard, we note that the administration has acknowledged that enactment of this bill would result in the loss of 90,000 jobs. We think the impact would be much greater.

It is often heard that the minimum wage must be raised because it has not kept pace with increases in the cost of living. This simply is not true. From 1967 to the present, the applicable minimum wage for our industry has increased by 130 percent, while the consumer price index has increased 76.6 percent. The last amendments to the Fair Labor Standards Act in 1974 mandated increases in the wage rate of 44 percent, while the consumer price index increased 19.8 percent over the same period.

These facts are frequently overlooked or ignored in discussions of proposals to increase the minimum wage. First is the fact that raising the minimum is like lifting the floor in a fixed space, you either raise the ceiling, or compress space between floor and ceiling. In this case you compress the gap between the skilled and the unskilled, the trained and the untrained. This compression cannot last. The pressure becomes irresistible to restore old relationships.

Assistant Secretary of Labor Abraham Weiss commented on this fact in testimony in November of 1975 in these words:

> Just as occupations or skills are related, so are wage rates for these jobs or skills. Wage differentials are often jealously and zealously guarded and maintained. Differentials are viewed as necessary by both employers and workers in the interest of both efficiency and fairness.

The second point is that although in theory every state can adjust its minimum wage to the average wages in its jurisdiction and to its own economic vitality, in fact, with the increased coverage of the Federal law, the ability of individual States to adjust their minimum wages is now very limited. If the Federal minimum is kept relatively low, so that all States can accommodate to its requirements, it poses few problems. States with more vigorous economic and higher average wages can adjust their minimum upward. But no State can bring the Federal minimum down when it is found detrimental to that State's economy or inconsistent with its average wages.

The third frequently ignored fact is the impact on teenage employment. The highest unemployment rate of any group in our society today is among teenagers. The impact of an increase in the minimum wage on this problem is dramatically illustrated by the fact that the proposed increase will reduce the number of youth that can benefit from government-sponsored youth employment programs from about 600,000 to 400,000. With about 1½ milion youth unemployed, employment of youth by the business community offers the only real long-term solution to the problem. An increase in the minimum will create the same type of impediment for the private sector as it does for the government programs.

We are keenly aware of the problem because our industry is in a position to offer employment to large numbers of unskilled and untrained persons. As labor costs rise, however, the natural impetus will

be to seek more mature and experienced employees and the immature and untrained will face an even more difficult task.

Probably the most disturbing feature of S. 1871 is indexing the minimum wage. We are opposed to this concept. The Secretary of Labor acknowledged that indexing represents a major departure from previous methods of adjusting the minimum wage, and he then proposed to study its effects on inflation and the wage-setting process in the rest of the economy. We believe indexing the minimum wage would be a major step toward adopting indexing as our national policy; and to adopt it first and study it later is to put the cart before the horse.

It is said that indexing will provide certainty in minimum wage adjustments for the business community and the employer will be better able to plan. On the contrary, the most reliable way for the employer to know what the minimum wage will be is to set it in dollars and cents figures over a definite period of years.

In S. 1871, thousands of employers and millions of employees will be directly affected by collective bargaining agreements between organized labor and capital-intensive, rather than labor-intensive, industries with no voice at the bargaining table.

Indexing the minimum wage is a major policy change, the effects of which admittedly have not been studied by our Government. By adopting it Congress will abdicate its responsibility over a key factor in the Nation's economy which it has already removed from the control of market forces.

Sections 3 and 4 of the bill would make very significant changes in the tip credit. Unfortunately, the tip credit is widely misunderstood. It was included in the law in 1967, when the restaurant industry was first brought within the coverage of the Fair Labor Standards Act. Within carefully prescribed limits, it permits an employer to credit a portion of the tip income of his employees against his obligation to pay the minimum wage. The amount of the credit can never exceed the amount of the tips received and, in no event can it exceed 50 percent of the minimum wage. The important point in that the existing tip credit provision never operates to reduce an employee's wages below the required minimum wage. All tipped employees are guaranteed at least the minimum wage, and Government studies show that most receive far more.

We are strongly opposed to the proposed changes in the tip credit authorization and feel it will not only have obvious adverse effects on the employer, but also will actually work to the detriment of the tipped employee as well. Our opposition is based on several grounds which I would like to explain.

To determine if the tip credit principle is sound, it is necessary to measure it against the underlying purpose of the minimum wage law itself, which is to place a floor under earned income—not set a ceiling or establish an average, but to fix a guaranteed minimum remuneration for work. One should, therefore, look at the total remuneration of the employee incident to his job, and not just the cash wages received from the employer. Tip income is a very important part of that total remuneration, and the Congress, the courts, and Government agencies have consistently held that tips are remuneration for employment. As such, it would be illogical to exclude them in determin-

ing whether a tipped employee's wages meet a statutorily prescribed minimum level.

A survey conducted by the Bureau of Labor Statistics in 1971 revealed that combined tip income and cash wages paid by the employer averaged about double the statutory minimum wage for nontipped employees. The survey also showed that estimated average tips alone exceeded the statutory minimum wage in effect at that time by approximately 15 percent. Another finding was that tipped employees' average income from the job was 61 percent higher than their nontipped coworkers.

The conclusion to be drawn from this is that the purpose of the minimum wage law—establishing a guaranteed minimum remuneration for employment—is being met and complied with under the existing tip credit authorization. The end result of an abolition of the tip credit would be to guarantee tipped employees a minimum wage far above their nontipped coworkers, and to unfairly impose on the hospitality industry a far higher minimum wage standard than is applicable to other industries.

The argument is often heard that the tip credit should be abolished because tips are a private matter between the employee and the customer. What this completely overlooks, however, is that the employer makes very significant contributions toward the production of tip income.

Tips are clearly the product of contributions by both the employer and the employee. All tips are earned on the premises of the employer, using the employer's equipment and serving his food. The employer pays all the overhead and operating expenses, determines the price of the meal and its quality, determines the general atmosphere of the establishment, and assigns the work shifts and stations. All of these factors contribute directly and significantly to the level of tip income.

The principal point here is that tips are the result of a joint effort by both the employer and the employee and that the employer's contributions are significant and should be continued to be recognized.

The final point I would like to make against the tip credit repeal relates to its economic effects and the likely effects on the employees involved. It is obvious that reduction and ultimate elimination of the tip credit will substantially increase the employer's labor costs. The restauranteur must recover these increased costs somehow, but he really has very few choices.

Increasing menu prices is an obvious approach, but in this industry merely passing on costs to the consumer is not as simple as it sounds, nor as simple as it may be in other industries. There is a limit as to how much additional cost can be passed through to the consumer. Merely passing on all, or a substantial portion of this large increase in labor costs, in our experience, would result in a significant drop in customer count and also a corresponding drop in tip income and employment opportunities. The unsatisfactory, but seemingly inevitable result here would not only be bad for the employer, but the employee could well find that he is making less also.

The alternative—not passing through the increased labor costs—would bring about equally undesirable results. The employer would have to devise other ways to absorb the increase. Here are some of the

approaches I have heard suggested. Each will result in loss of jobs or lower total wages for the tipped employee, or both.

1. Go to a service charge system.

2. Shift to more customer self-service operations, such as buffets, self-help salad bars, and so forth.

3. Reduce the supporting staff personnel and have the waiters and waitresses do their own busing, setting up tables, cleaning up, and so forth. Unfortunately, in addition to reducing employment, this would leave far less time for tip-producing activities.

We are pleased to note that the Administration has expressed its opposition to a reduction or repeal of the tip credit. We join in that opposition.

The proposed new definition of a "tipped employee" in section 4 of the bill would further erode the value of the tip credit by limiting its application and thus increase the adverse economic impact on the employer. The adoption of this new approach will favor the part-time employee—who is often working to obtain supplementary income—over the full-time, career employee who depends on his job for his livelihood.

Mr. Chairman, that concludes my testimony. I will be pleased to attempt to answer any questions you may have. Thank you, sir.

[The prepared statement of Mr. Eure follows:]

STATEMENT OF THE
NATIONAL RESTAURANT ASSOCIATION
BEFORE THE
SUBCOMMITTEE ON LABOR
OF THE
COMMITTEE ON HUMAN RESOURCES
U.S. SENATE
ON
S. 1871
AUGUST 4, 1977

Mr. Chairman, members of the Subcommittee on Labor, I am Thad A. Eure, Jr., Vice President of the National Restaurant Association and owner of the Angus Barn restaurant in Raleigh, North Carolina. I am accompanied by Robert Neville, our Association's Counsel in Washington.

The National Restaurant Association is a business league of over 5000 corporations and several thousand individuals and partnerships operating all types of foodservice establishments in all States of the Union. Our membership includes affiliation with the restaurant associations of 47 States, which rely upon us to represent them in issues raised by Federal legislation or regulation.

With over 500,000 establishments, the industry employs over 5 percent of the Nation's work force and, in 1976, contributed $78.6 billion to the country's Gross National Product. In retail business, our industry is the leading employer, has the most establishments, and is fourth in sales volume. Because the industry is so labor intensive, it is not surprising that its productivity, measured in sales per employee, is the lowest of all the retail industries.

The Association Position

In the past, our Association has endorsed increases in the minimum wage. We did so in 1971, '72, and '73. We cannot support S. 1871.

Our opposition is based upon the fact that S. 1871 predicts and encourages a rate of inflation far in excess of the Administration's announced goals -- and well above that acceptable and expected by our people. The increases in the basic minimum projected under this bill by the Labor Department are 15.2 percent in January, an additional 9.1 percent a year later, and another 9 percent in January 1980. This represents, by conservative estimates, a cumulative increase of 37 percent over the next two years. These projections pertain only to the minimum wage as it applies to non-tipped employees. The increases for tipped employees under this bill are much higher.

The announced purpose of this increase is to close the gap between the annual income provided by the minimum wage and the present poverty level for a non-farm family of four.

This reasoning would have validity if the minimum wage law applied only to workers who provide the sole support for a family of four, but, like the rain from heaven, this law falls on everybody. There are less than 4 million four-person families in the country supported by one worker and there is no evidence that all are in poverty. The contention that the current minimum is a poverty wage also ignores the fact that the current minimum wage provides an annual income well above the poverty level for families of one and two, and is above that level for families of three.

The point is that you can't equate an hourly wage that applies to all workers, including single workers and workers living in a family with other workers, with the minimum income for a family of four. The impact of the minimum wage on poverty will vary according to the number of persons living on a given income. For example, less than 7 percent of low-wage teenagers are in poverty-line families and fully 40 percent of low-wage teenagers are in families with incomes over $15,000.

Impact on the Foodservice Industry

To state it briefly, the first year impact of both increasing the minimum wage to $2.65 and lowering the allowable tip allowance to 45 percent would be to increase the industry's labor costs by $1.9 billion or to put at risk working hours equivalent to the elimination of 420,000 jobs.

These are first year effects only. The impact on the foodservice industry would increase annually. By 1980, under S. 1871, the minimum would be at a projected $3.15, the tip credit at 30 percent and the foodservice industry's labor costs would be up $4.9 billion over today's level, or require a reduction in working hours equivalent to the elimination of more than 900,000 jobs.

Obviously, employers will adopt a mix of strategies to meet these new costs. Some part of the increase would undoubtedly be reflected in higher menu prices, lower profits, reduced employee benefits, modification of serving styles to reduce

the required number of workers, liquidation of marginal small restaurants, and lowered capital investment in new restaurants. It is not possible to forecast what the balance would be. It is clear, however, that S. 1871 would have a pronounced combination of inflationary and unemployment consequences. In this regard, we note that the Administration has acknowledged that enactment of this bill would result in the loss of 90,000 jobs. We think the impact would be much greater.

In order to evaluate the impact that a repeal of the tip allowance coupled with an increase in the minimum wage would have on the foodservice industry, our Association commissioned a prominent accounting firm to make an analysis of the situation in California, where the tip allowance was repealed in 1976 and the minimum was increased 50 cents an hour. Some of the findings were:

-- Two-thirds of the restaurants studied were forced to reduce their staffs by an average of 50 hours per week.

-- Over 80% of the restaurants studied had to increase prices.

-- The price increases forced by higher labor costs have resulted in patronage losses.

-- Payroll costs as a percentage of sales are up significantly.

-- Fringe benefits are being reduced or deferred.

It is often heard that the minimum wage must be raised because it has not kept pace with increases in the cost of living. This simply is not true. From 1967 to the present, the applicable minimum wage for our industry has increased by

130%, while the Consumer Price Index has increased 76.6%. The last amendments to the Fair Labor Standards Act in 1974 mandated increases in the wage rate of 44%, while the Consumer Price Index increased 19.8% over the same period.

Three facts are frequently overlooked or ignored in discussions of proposals to increase the minimum wage. First is the fact that raising the minimum is like lifting the floor in a fixed space, you either raise the ceiling or compress space between floor and ceiling. In this case, you compress the gap between the skilled and the unskilled, the trained and the untrained. You know from your own experience that this compression can't last. The pressure becomes irresistible to restore old relationships. Assistant Secretary of Labor Abraham Weiss commented on this fact in testimony in November 1975 in these words, "Just as occupations or skills are related, so are wage rates for these jobs or skills. Wage differentials are often jealously and zealously guarded and maintained ... Differentials are viewed as necessary by both employers and workers in the interest of both efficiency and fairness."

The second point often overlooked in minimum wage debate is that,although in theory every State can adjust its minimum wage to the average wages in its jurisdication and to its own economic vitality, in fact, with the increased coverage of the Federal law and the repeal of the dollar volume test for establishments, the ability of individual States to adjust

their minimum wages is now very limited. If the Federal minimum is kept relatively low so that all States can accommodate to its requirements, it poses few problems for them. States with more vigorous economies and higher average wages can adjust their minimum upward. But no State can bring the Federal minimum down when it is found detrimental to that State's economy or inconsistent with its average wages.

The third frequently ignored fact is the impact on teenage employment. The highest unemployment rate of any group in our society today, and for the last several years, is among teenagers. As you know the Commissioner of Labor Statistics reported the recent increase in the unemployment rate was largely due to an increase in teenage unemployment. Recent studies attribute the teenagers plight to the steadily rising minimum wage. Unfortunately, the impact falls most heavily on urban minority youth. The impact of an increase in the minimum wage on this problem is dramatically illustrated by the fact that the proposed increase will reduce the number of youth that can benefit from government sponsored youth employment programs from about 600,000 to 400,000. With about 1 1/2 million youth unemployed, employment of youth by the business community offers the only real long-term solution to the problem. An increase in the minimum will create the same type of impediment for the private sector as it does for government programs.

We are keenly aware of the problem because our industry is in a position to offer employment to large numbers of unskilled and untrained persons. In fact, over 30 percent of our employees are teenagers. As labor costs rise, however, the natural impetus will be to seek more mature and experienced employees and the immature and untrained will face an even more difficult task.

Indexing

Probably the most disturbing feature of S. 1871 and the legislation now pending in the other body is indexing the minimum wage. We are opposed to the concept and find the arguments advanced in its favor to be unsupported. The Secretary of Labor acknowledged in testimony before this Committee and before the House Subcommittee on Labor Standards that indexing represents a major departure from previous methods of adjusting the minimum wage, and he then proposed to study its effects on inflation and the wage setting process in the rest of the economy. We believe indexing the minimum wage would be a major step toward adopting indexing as our national policy and to adopt it first and study it later is, to coin a phrase, putting the cart before the horse.

It is said that indexing will provide certainty in minimum wage adjustments for the business community and the employer will be better able to plan. On the contrary, the most reliable way for the employer to know what the minimum wage will be is for Congress to set it in dollars and cents figures over a definite period of years.

It is said that we have already applied indexing to social security and government retirements, so why not the minimum wage. In the first place, these incomes are unrelated to production costs. In the second place, it seems fair to say that indexing social security and government retirements has resulted in unforeseen and unmanageable fiscal problems for which the Congress is now looking for solutions.

Indexing is applied to wages in the private sector by tying increases to the Consumer Price Index, but only as a result of collective bargaining where the agreement is limited to a specified period and all factors may be weighed by the parties concerned, including improvements in productivity. The Council on Wage and Price Stability warned as recently as 1975 that this linkage threatens to "increase the difficulty of halting an upward spiral of prices and wages." In S. 1871, thousands of employers and millions of employees will be directly affected by collective bargaining agreements between organized labor in capital intensive rather than labor intensive industries with no voice at the bargaining table. We fail to see how Congress can conscientiously meet its responsibilities by tying the minimum wage to an index or standard which is entirely beyond its control.

Indexing the minimum wage is a major policy change, the effects of which admittedly have not been studied by our government. By adopting it Congress will abdicate its responsibility over a key factor in the Nation's economy which it has already removed from the control of market forces. We urge you not to do it.

Proposed Repeal of the Tip Credit

Sections 3 and 4 of the bill would make very significant changes in the law as it relates to the tip allowance, or tip credit as it is sometimes called. Section 3 would phase out the

tip credit by reducing the authorized percentage each year until January 1, 1983 when it would be completely repealed. Section 4 would change the definition of a "tipped employee" so as to limit the application of the tip credit to far fewer employees. These provisions are of extreme importance to large segments of our industry since approximately 21 percent of all foodservice workers receive tips.

Unfortunately, the tip credit is widely misunderstood. It was included in the law in 1967, when the restaurant industry was first brought within the coverage of the Fair Labor Standards Act. Within carefully prescribed limits, it permits an employer to credit a portion of the tip income of his employees against his obligation to pay the minimum wage. The amount of the credit can never exceed the amount of tips received and, in no event, can it exceed 50 percent of the minimum wage. The important point is that the existing tip credit provision never operates to reduce an employee's wages below the required minimum wage. All tipped employees are guaranteed at least the minimum wage and Government studies show that most receive far more. The present law has several built-in safeguards -- the tip credit can never reduce an employee's wages below the required minimum; the amount of the credit can never exceed 50 percent of the minimum wage; it can never exceed the tips actually received; it must be clearly shown on payroll records; and it can't be used at all unless its application and limitations are first explained to the employee.

We are strongly opposed to the proposed changes in the tip credit authorization and feel that it will not only have obvious adverse effects on the employer, but also will actually work to the detriment of the tipped employee as well. Our opposition is based on several grounds which I'd like to explain.

As I mentioned, the tip credit was recognized as a valid concept and set at 50 percent of the minimum wage when our industry was first covered by the Fair Labor Standards Act in 1967. It represents a compromise reached by the Congress between those who contended that tip income should not be considered at all and those who argued that tips are remuneration for employment and therefore should be offset against the minimum wage in their entirety. This compromise was reached after lengthy hearings, careful deliberation, and extensive debate and nothing has occurred in the intervening years to controvert its soundness and fairness.

To determine if the tip credit principle is sound, it is necessary to measure it against the underlying purpose of the minimum wage law itself which is to place a floor under earned income -- not set a ceiling or establish an average, but to fix a guaranteed minimum remuneration for work. One should therefore look at the total remuneration of the employee incident to his job, and not just the cash wages received from the employer. Tip income is a very important part of that total remuneration and the Congress, the courts, and government

agencies have consistently held that tips are remuneration for employment and taxable income. As such, it would be illogical to exclude them in determining whether a tipped employee's wages meet a statutorily prescribed minimum level.

As I stated previously, all tipped employees receive at least the statutory minimum wage and the vast majority receive far more. In fact, a survey conducted by the Bureau of Labor Statistics in 1971 revealed that combined tip income and cash wages paid by the employer averaged about double the statutory minimum wage for non-tipped employees. The survey also showed that estimated average tips alone exceeded the statutory minimum wage in effect at that time by approximately 15%. Another finding was that tipped employees' average income from the job was 61% higher than their non-tipped coworkers.

A more recent survey by the Bureau of Labor Statistics further confirms that tipped employees currently receive in total wages far in excess of the minimum wage. This was an industry wage survey of hotels and motels completed in June of 1973. While more limited in scope than the 1971 report, it showed that the average hourly earnings, which includes tips, of waiters and waitresses in a full course restaurant was just about double the minimum wage in effect at that time. In fact, the average hourly wage of waiters and waitresses in the five different types of foodservice operations surveyed was approximately 119% above the minimum wage.

The conclusion to be drawn from this is that the purpose of the minimum wage law - establishing a guaranteed minimum remuneration for employment -- is being met and complied with under the existing tip credit authorization. The end result of an abolition of the tip credit would be to guarantee tipped employees a minimum wage far above their non-tipped coworkers and to unfairly impose on the hospitality industry a far higher minimum wage standard than is applicable to other industries.

The argument is often heard that the tip credit should be abolished because tips are a private matter between the employee and the customer. What this completely overlooks, however, is that the employer makes very significant contributions toward the production of tip income. Congress recognized this fact when it enacted the present provision.

Tips are clearly the product of contributions by both the employer and the employee. The employee's contributions are the quality and efficiency of his service. However, in the final analysis, the employee's efforts are almost totally dependent on the contributions and efficiency of the employer. All tips are earned on the premises of the employer, using the employer's equipment and serving his food. The employer pays all the overhead and operating expenses, determines the price of the meal and its quality, determines the general atmosphere of the establishment, and assigns the work shifts and stations. All of these factors contribute directly and

significantly to the level of tip income.

The principal point here is that tips are the result of a joint effort by both the employer and the employee and that the employer's contributions are significant and should be continued to be recognized.

The final point I would like to make against the tip credit repeal relates to its economic effects and the likely effects on the employees involved. It is obvious that reduction and ultimate elimination of the tip credit will substantially increase the employer's labor costs. To illustrate, by 1980 when the wage rate is projected to be $3.15 and the tip credit reduced to 30 percent, the increased labor cost for tipped employees would be approximately 90% higher than the cost today. The enactment of the proposed new definition of a "tipped employee" would increase these costs even further and, they would also raise significantly each year as the wage rate went up and the permitted tip credit went down. The restaurateur must recover these increased costs somehow, but he really has very few choices.

Increasing menu prices is an obvious approach, but in this industry merely passing on costs to the consumer is not as simple as it sounds nor as simple as it may be in other industries. Restaurants are not only in competition with each other, but are also in competition with home food preparation and the supermarket. In this industry, there is a limit

as to how much additional costs can be passed through to the consumer. Merely passing on all or a substantial portion of this large increase in labor costs, in our experience, would result in a significant drop in customer count and also a corresponding drop in tip income and employment opportunities. The unsatisfactory, but seemingly inevitable, result here would not only be bad for the employer, but the employee could well find that he is making less also.

The alternative -- not passing through the increased labor costs -- would bring about equally undesirable results. The employer would have to devise other ways to absorb the increase. Here are some of the approaches I have heard suggested. Please note that each will result in loss of jobs or lower total wages for the tipped employee, or both.

a. Go to a service charge system. While tips are generally recognized as belonging to the employee, a service charge added to the bill is part of the gross receipts of the employer. The service charge could then be used by the employer to help meet his increased wage obligations but its imposition would eliminate or greatly reduce tips left by the customer.

b. Shift to more customer self-service operations, such as buffets, self-help salad bars, etc. This method of operation obviously reduces the number of employees needed to function smoothly.

c. Reduce the supporting staff personnel and have the waiters and waitresses do their own bussing, setting up tables,

cleaning up, etc. Unfortunately, in addition to reducing employment, this would leave far less time for tip-producing activities.

The conclusion we reach is that the significant increase in labor costs from a reduction and ultimate repeal of the tip credit would greatly increase menu prices, to the extent the added cost can be passed through to the consumer, and this in turn would reduce customer count, job opportunities, and tip income. If the increased costs are not passed through, other accommodations will have to be made which will also result in a loss of jobs and again a reduction in tip income.

We do not believe that these results were intended when the tip credit section was prepared. We are pleased to note that the Administration has expressed its opposition to a reduction or repeal of the tip credit and we join in that opposition for the reasons I have stated.

I would like to add a few brief observations about the proposed new definition of a "tipped employee" in Section 4 of the bill. This would further erode the value of the tip credit by limiting its application and thus increase the adverse economic impact on the employer. The formula itself, as contained in the bill, is troublesome for as we read it the average monthly tips would be determined by multiplying the average monthly hours of employment of all employees in hotels, motels, restaurants, and other foodservice establishments by the average authorized tip credit. Using the hours of employ-

ment of all employees in the specified industries as one of the multipliers will produce a result which bears no direct relationship to the income of tipped employees. Additionally, the adoption of this new approach will favor the part-time employee -- who is often working to obtain supplementary income -- over the full-time, career, employee who depends on his job for his livelihood.

Mr. Chairman, that concludes my testimony. We appreciate this opportunity to express our views on this important legislation and ask that the observations and objections we have made receive your consideration during the Committee's deliberations.

I will be pleased to attempt to answer any questions you may have.

The CHAIRMAN. Thank you very much.

You did testify once before on a minimum wage bill?

Mr. EURE. No, sir, this is my first time.

The CHAIRMAN. Are you newly elected to your office in the association?

Mr. EURE. I have been vice president of the National Restaurant Association since May and I have been in the restaurant business over 18 years. I guess you would say I have a joint representation here. I am representing myself as a citizen in the food service industry and also our great National Restaurant Association.

The CHAIRMAN. How large an establishment is your Angus barn in Raleigh?

Mr. EURE. Sir, we serve one meal a day at the Angus barn and we employ 110 people. We served about 200,000 people last year that one meal a day.

The CHAIRMAN. That is the dinner meal?

Mr. EURE. Yes.

The CHAIRMAN. I wonder if we could recess for a couple of minutes while I clarify the situation.

[A recess was taken.]

The CHAIRMAN. Mr. Hunt, we are pleased to receive your statement.

Mr. HUNT. Mr. Chairman, I am Pfilip G. Hunt, vice president of corporate affairs for Morrison Inc., headquartered in Mobile, Ala. I am pleased to appear before the committee today to testify on behalf of the Foodservice and Lodging Institute which is a trade industry group representing 32 of the Nation's major multistate, multiunit food and lodging companies.

In these 32 multiunit, multistate food and lodging companies we operate in excess of 30,000 establishments and employ over 1 million employees and do in excess of $10 billion per year in gross sales.

I would like to address myself first to our concern about the proposed elimination of the tip credit under S. 1871.

My company, Morrison Inc., is the South's largest food service operator. We have approximately 103 public cafeterias and around 225 additional operations that cater food services to hospitals, schools, colleges, universities, industrial plants, and office buildings. We employ around 1,600 tipped employees. Our average tipped employee makes somewhere around $35 per day in tips. Our tipped employees are somewhat unique to other parts of the country.

They take the tray at the end of the line, find a table for the customer, set up the table and provide various other services to accommodate the needs of the patrons. S. 1871, as you know, will increase the wages for the tipped employee by 254 percent by January 1, 1983. That is a 27-percent increase the first year and a 20-percent increase approximately, each year thereafter.

It should be obvious that this could eliminate 1,600 tipped jobs in the Morrison organization, and I know that is not the intent of the legislation, to eliminate jobs. Patrons already carry their trays in many of the large cities to the North in cafeterias already. The customers in the South generally, particularly where we have served for 57 years, appreciate the tray waiter type services we have and they are willing to tip for it. However, with the proposed legislation as it is predicted right now, there is a good possibility that this kind of job could become a thing of the past.

In the statement filed with the committee, on page 5 there is an illustration of the impact of S. 1871, showing the complete repeal of the tipped credit on a typical table service restaurant presently grossing $250,000 by January 1, 1983, assuming the public accepts these changes.

We have assumed in this illustration that inflation of the cost of food and other operating costs will go up annually around 6 percent and that a drop in the percentage of profit from 5 percent to 4.3 percent of gross sales would still be sufficient to attract investment.

Let's note a couple of the disparities. First, and most important to the customer, is the cost of eating out, which would go up by 56 percent as compared to the cost of preparing food at home or carrying lunch would only go up about 33 percent. We know from long experience in our industry that this would be unacceptable to the customer and the restaurant industry would lose a substantial segment of its market with a corresponding drop in jobs the restaurant industry creates.

Note also that the wages of tipped employees go up 255 percent, while the wages of nontipped employees go up 151 percent. This is obviously inequitable in that the tipped employee is already among the best paid employees in our industry.

Obviously, competition with our chief competitor—the homemaker who can prepare meals at home and serve it at home—will not permit the sort of wage increase that we would anticipate here in terms of us having to increase our menu prices enough to recover these increases.

We have an additional chart, which is the last page of this report, which shows that by January 1, 1983, the minimum wage probably would be somewhere around $4.08 for the tipped employee who at that point, of course, would no longer be tipped.

Thus, our solution could not be simply to increase retail selling prices. The major adjustment would have to affect the working conditions and income of the tipped employees. Our studies show that more than two-thirds of the income of employees in restaurants where there are tips, that income, over two-thirds of it consists of tips. The average sales of a waiter or waitress is slightly in excess of $20 per hour. Their tip income is about $2.91. Their cash wage is about $1.37, giving them a total wage of somewhere around $4.28 per hour. A tipped employee makes somewhere between two and three times the profit before taxes, which an employer makes on the sales generated by the tipped employee.

To offset the cost of the lost tip credit, several steps would have to be taken by the owner to avoid unacceptable menu price increases, all of which necessarily would militate against the best interest of the tipped employee. The first step would be to eliminate work during relatively unproductive hours, such as, the elimination of meals during unproductive times, like breakfast, in the case of many operators, or the implementation of a split shift.

Bear in mind that the tipped employee would prefer to work these hours since his tipped income would justify work during the relatively unproductive hours. However, the profits to the company would not necessarily justify keeping the operation open during these same hours.

A second result of the repeal of the tip credit would be to modify the work assignment of the tipped employee, giving additional

duties such as, cooking, additional busing responsibilities, cleanup responsibilities.

A third possibility would be employer-mandated tip splitting. And a fourth possibility would be the introduction of mandatory service charges in lieu of tips by restaurants. Although service charges are not generally favored by industry today, they would be preferred to an arbitrarily high minimum wage. The service charge could then be used to finance future increases in the minimum wage.

Another solution might include switching table-service-type operations to buffets. In the long run, we would anticipate a substantial curtailment of the table-service-type restaurant.

One further point should be made on tips. We are aware that bill S. 1871 does not have the same modification of the definition of a tipped employee as the bill approved by the House Education and Labor Committee about a week or so ago.

As we understand the Senate amendment to section 3(t), it would require that a tipped employee should be defined as receiving an amount equal to or exceeding an amount prescribed annually by multiplying the average number of hours worked by employees in the industry monthly by the applicable tip credit permitted by statute at that time.

The impact of this proposal could be staggering on our industry in that it would create a dollar figure that would push the amount of tips necessary to qualify the tipped employee so high that the tip credit would be valueless for much of the food and lodging industry within 1 day after implementation of this provision.

Let me give you one quick example. The average number of hours worked by an employee in our industries is somewhere around 30 per week. This is 120 hours per month. That, multiplied by the present tip credit of $1.15 per hour requires $138 per month before an employee would be classified as a tipped employee and the employer could take advantage of the tip allowance.

While starting with generally the same language, the House committee modified it, deciding instead to raise the threshold amount an employee must receive in order to be defined as a tipped employee from $20 to $30 a month.

Modification of the definition of a tipped employee we believe should be accompanied by language reemphasizing that the purpose is not to eliminate new or part-time employees.

We would suggest incorporation into the Senate committee report on this measure language which is contained on pages 10 and 11 of my report. That language is quoted on pages 10 and 11 and I will not read that unless you so desire, Mr. Chairman. But, I would make one comment about the quotation and that is, with the exception of changing the dollar amount in the quotation from $20 to $30, this quotation contains the same language referenced in the Senate Labor Committee report in the 1966 amendments to the Fair Labor Standards Act. That was Senate Report No. 1487, 89th Congress, 2d session, page 12, 1966.

Although it is not in the bill at present—there is a possibility it could end up in the bill by the time the House version gets over to the Senate subcommittee—we would also urge continuation of the 46-hour workweek provided by section 13(b)(8) of the Fair Labor Standards Act. It should be recognized that many restaurant workers are relatively unskilled and relatively low-wage earners.

If you eliminate the 46-hour workweek restaurants will generally curtail hours, in many instances, eliminating unprofitable meals such as breakfast, which I mentioned earlier. This would be not create additional jobs as perhaps would be anticipated. Rather, it would destroy the opportunity for many relatively low-paid wage earners to enhance those earnings.

My own company has a case in point I might cite for you and that was back in 1969, when there was an increase in the minimum that year. We had quite a few industrial accounts, contract accounts of the type that were hospitals, schools, industrial plants and office buildings. We received a directive of general implication from our clients to the effect that we should try to hold our labor bill just as tight as we could, as close around the previous year as we could.

We did this. We increased the minimum wage as required by law but we found we were able to cut back an average of 4 or 5 hours per employee, as well as eliminate some employees with the end result, although we didn't want it this way, that those employees did not increase their take-home pay.

Elimination of the 46-hour workweek will particularly hurt the tipped employees who are primarily interested in their potential for earning additional tips. Bear in mind that under existing Labor Department regulations a tipped employee must receive a cash wage of $1.15 per hour and during overtime situations receives $2.30, which is a 100-percent increase. Thus, the motivation for the employer to eliminate tipped employees from receiving premium overtime is really twice that of any nontipped employee.

We believe that the 46-hour workweek is a fair compromise and tends to rectify this unusual effect the law has in discouraging overtime for tipped employees.

Mr. Chairman, there is also a pressing need for a youth opportunity rate in S. 1871. At the beginning of last month we are all aware that the Labor Department published its unemployment statistics. In those statistics the unemployed teenagers ranked about 19 percent; the black teenagers were double that rate at over 39; the women were at 7.2; the blacks, both male and female, were 13.2. With the exception of the women's unemployment rate, all these figures were significantly higher than the national average of 7.1 percent. I have not seen the July figures but I assume we are somewhat in the same ball park.

Legislating minimum wage, as we see it, is a direct governmental interference into the patterns of events which would not otherwise occur in a free market. When interference becomes too great, when wages, for example, outstrip the units of productivity something has to give. Employers, seeing their labor costs skyrocket while productivity remains relatively constant, will seek one of two alternatives to solve this.

No. 1, they introduce laborsaving mechanisms, machinery, equipment, et cetera. No. 2, they realign the labor force so that they can secure increased productivity. Make no mistake about it, our indutsry will suffer but the biggest victim of this legislation will be the Nation's youth who will find that with the increased minimum wage their ability and reliability are overpriced in the job market.

Put yourself in the place of the employer and ask whether you would hire teenagers at $2.65 an hour, or $2.89 or $3.15 for any job where there

is an available pool of women willing to work part-time for the same job at the same rate? Of the 1 million employees the Foodservice and Lodging Institute represents, more than 89 percent claim zero or one dependent on the W–4 forms, indicating that they are not breadwinners in their families.

Fifty percent of our employees are under 18 or are full-time students. Eighty percent are part-timers. In the so-called "fast food" industry approximately 50 percent are part-timers consisting almost entirely of teenagers, students and married women. At present, teens and students constitute roughly 67 percent of part-time employees, married women seeking supplementary income constitute the other third of the part-time employees.

It is obvious to employers that the percentage of married women seeking part-time employment is increasing substantially and will continue to increase as the minimum wage goes up. Married women seeking supplemental income to go with the other family income seek, in general, part-time employment and this has the effect of squeezing out of the job market many youth who are really in great need of this income.

As the minimum becomes artificially high, our industry can attract the more preferred, reliable married women. I say "more preferred" and "reliable" in that the married woman is basically more stable and she is more attentive to her job than the teenager. Their relative maturity alone counts for much in terms of their lack of experience in the so-called "fast food" industry. They will be hired on that basis many times even though they have no basic experience.

However, their employment, in our opinion, will have serious social effects, adverse social effects. Teenagers are being denied an opportunity for initial employment where they might gain a valuable experience in making the transition from school to work and learning the necessity of being dependable and working in a group environment where they are a team, working under supervision, developing good working habits while learning some basic skills.

We would deny that a minimum wage which affords teenagers such an opportunity is at the expense of full-time jobs for heads of households. The information I just cited about 89 percent of our employees listing zero or one dependent on a W–4 form, I think, supports this.

Mr. Chairman, the need for youth opportunity rate in this bill is real. Without it we are sentencing our teenagers to idleness. CETA and other governmental programs will never fill the void. If you will not rely on private industry and if you will not provide industry with some incentive to hire teenagers then the teenagers will be basically idle. We, therefore, would urge that you provide some incentive for employers to hire teenagers and students in the hotel and restaurant industry so that they will continue to be able to compete for the jobs teenagers presently hold.

Mr. Chairman, I appreciate this opportunity to testify before you.

[The prepared statement of Mr. Hunt follows:]

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STATEMENT OF

THE FOODSERVICE AND LODGING INSTITUTE

BY

PFILIP G. HUNT

S. 1871 to

AMEND THE FAIR LABOR STANDARDS ACT OF 1938

SUBCOMMITTEE ON LABOR

SENATE HUMAN RESOURCES COMMITTEE

AUGUST 4, 1977

STATEMENT OF PFILIP G. HUNT ON S. 1871 to
AMEND THE FAIR LABOR STANDARDS ACT OF
1938

SUBCOMMITTEE ON LABOR
SENATE HUMAN RESOURCES COMMITTEE

Mr. Chairman and members of the Subcommittee on Labor. My name is Pfilip G. Hunt and I am Vice President-Corporate Affairs and In-House counsel for Morrison Incorporated, headquartered in Mobile, Alabama. I am pleased to appear before your Committee today on behalf of the Foodservice and Lodging Institute which is a trade industry group consisting of 32 of the nation's major multi-unit and multi-state food and lodging companies.

The Foodservice and Lodging Institute is an association consisting of 32 multi-unit, multi-state hotel and restaurant companies, operating more than 30,000 establishments with over one million employees and annual gross sales in excess of $10 billion. The food and lodging industry collectively is the largest employer of teenagers and young persons in this nation today.

At the beginning of last month, the Labor Department's Bureau of Labor Statistics announced June unemployment statistics. Unemployed white teenagers were listed as 18.6 percent; black teenagers at 39.4 percent; women at 7.2%; and blacks, both men and women, at 13.2 percent. Other than women, each category is significantly greater than the national average of 7.1 percent. I have not yet had the opportunity to see the July statistics, but I presume the results will be identical.

Legislating minimum wage is a direct governmental interference into patterns of events other than that which is produced in a free market. When the interference becomes too great, if wages climb far above units of productivity something will give. Employers, seeing their labor costs skyrocket while productivity remains constant, will seek one of two methods to counterbalance this artificial inequity:

(a) Introduce labor saving mechanisms, machiner, etc.; or

(b) Realign its employment force to assure increased productivity.

Make no mistake about it -- our industry will suffer. But the biggest sufferer, the potential victim of this legislation will be our nation's youth who will find that their ability and reliability are overpriced in the job market.

Put yourself in the place of the employer and ask yourselves whether you will hire teenagers at $2.65 per hour; $2.89 or $3.15 no matter what type of job it may be when there is a pool of women willing to work part-time at that rate? Those workers who have jobs, retain their jobs and receive a higher wage will show a clear gain. On the other hand, workers whose skills are limited, lose their jobs as well as their income. Congress and the Labor Department will return to work the day after this minimum wage bill is enacted. Many young people, however, will not.

Of the one million employees FLI members represent, more than 89% claim 0 of 1 dependent on their W-4 forms; 49.6% of our employees are under age 18 or are full time students. More than 80% of our employees are part-time workers. In the so-called fast food area, the percentage of part-timers approaches 90%, made up entirely of teenagers, students and married women. At present, teens and students constitute roughly 67% of part-time employees; married women seeking supplemental income through part-time employment constitute the other 33%.

It is obvious to employers that the percentage of married women seeking part-time employment is increasing substantially and will continue to do so as the minimum wage is increased. Married women seeking supplemental income from part-time employment are squeezing out job opportunities for teenagers who frequently are in greater need of the income they receive from part-time employment. As minimum wages become artificially high, our industry can attract preferred, more mature, married women seeking part-time employment. Such prospective employees are preferred because they are more reliable, and more attentive. Their relative maturity alone makes them more valuable even in the absence of any experience in the fast food industry. However, their employment in our opinion will have serious adverse social effects. Teenagers are being denied an opportunity for initial employment where they might gain a valuable experience in making the transition from school to work and learn the necessity to be dependable and by reporting on time; an opportunity where youngsters learn to work with peers under supervision and to develop good working habits while gaining basic work skills.

We deny that a minimum wage rate which affords teenagers such an opportunity is at the expense of full-time jobs for heads of households. These part-time jobs have advantages to the teenage work force which should be considered when considering the benefit to the employee. The hours of work are flexible and consistent with the free time, particularly of students. Generally, the jobs are convenient to the employee's home, upon which parents insist.

Mr. Chairman, the need for a youth opportunity rate in this bill is real. Without it we are sentencing our teenagers to idleness. CETA and other government programs will never be able to fill the void. If you will not rely on private industry and if you will not provide industry with some incentive to hire teenagers they will have nowhere to go. We, therefore, urge that you provide some incentive for employers to hire teenagers and students in the hotel and restaurant industry so that they will continue to be able to compete for the jobs teenagers presently hold.

We are also concerned about the proposed elimination of the tip credit contained in S. 1871.

Morrisons Cafeterias employ 1542 tipped employees. They average $35.00 a day in tips. Our tipped employees are somewhat unique to certain areas of the country. They carry trays from the end of the cafeteria line, locate a table for a patron, set up the table and

provide various other services to accommodate the patron. S. 1871 would require us to increase the wages of these tray waiters 254.8% by 1/1/83, five short years, starting with a 27% increase the first year and requiring an annual increase of over 20% each year thereafter. It should be obvious that this could wipe out 1,542 jobs. Patrons carry their own trays in most cafeterias in major northern cities. Our folks appreciate the service and are willing to tip for the service they receive, but this legislation will make such jobs a thing of the past.

In the statement filed with the Committee is an illustration of the impact S. 1851, with complete repeal of the tipped credit, will have on a typical table service restaurant presently grossing $250,000 per year by 1/1/83, assuming the public accepts the changes.

	12/31/77	1/1/83	% Increase
Gross Sales	$250,000	$ 389,620	55.8%
Food Cost	(87,500)	(117.094)	33.8%
Wages and Salaries			
Tipped employees	(20,000)	(70,956)	254.8%
Non-tipped	(67,500)	(101,911)	151.0%
All Other Overhead, etc., rent, equipment, paper, utensils, etc.	(62,500)	83,775	33.8%
Profit	+$12,500	$16,725	33.8%

[Note: Attached to this statement is a chart demonstrating the impact of Bill S. 1871 on direct wage costs of restaurant employees of tipped employees over 5 years.]

This illustration assumes that inflation of the cost of food and other operating costs would increase 6% per year and that a drop in percentage of profit from 5% to 4.3% of gross would be sufficent to continue to attract investment.

Please note some of the disparities. First, and most important to the consumer, is that the price of eating out would rise 55.8%, while the cost of eating at home or carrying lunch would rise only 33.8%. We know from long experience that this would be unacceptable and the restaurant industry would lose a large share of its market with a corresponding drop in jobs the restaurant industry creates.

Note also that the wages of tipped employees rise 254.8%, while other employees will receive only 151%. This is obviously inequitable since the tipped employee is already the highest paid among the industry's wage earners

Obviously, competition with our chief competitor -- the homemaker who can prepare and serve meals at home -- will not permit the sort of price increase which clearly would be required in order to finance the labor costs mandated by a $4.08 minimum without a tip credit, as is proposed by S. 1871. Thus, our solution could not be simply to raise prices. The major adjustment would affect the working conditions and income of tipped employees. Our studies show that more than two-thirds of the income of employees in restaurants who receive tips

consist of tips. The average sales of a waiter or waitress is slightly in excess of $20.00 per hour. Their tip income is $2.91 per hour. Their cash wage is $1.37 per hour. A tipped employee makes between two and three times the profits before taxes, which an employer receives from the sales made by a tipped employee.

To offset the cost of the lost tip credit, several steps would have to be taken by the owner to avoid unacceptable menu price increases, all of which steps necessarily would militate against the present interest of the tipped employee. The first step would be to eliminate work during relatively unproductive hours (e.g., with the elimination of meals that are relatively unprofitable, and the use of split shifts). Bear in mind that the employee would prefer to work these hours since his tip income would justify work during relatively unproductive hours even though profits to the employer during the same periods would not. In a recent study of our members on the effects of the repeal of the tip credit in California, we actually found that average weekly take-home pay of four major restaurant companies for tipped employees decreased. This was due to curtailment of unprofitable hours. Another result of the repeal of the tip credit would be to modify the work assignment of the tipped employee. More time would be spent by tipped employees cooking, busing dishes, and general cleaning. Employer mandated tip-splitting would be a third result of the repeal of the tip credit. Finally, many restaurants will introduce mandatory service charges in lieu of tips. Although service charges are not favored by

the industry today, they would be preferred to an arbitrarily high minimum wage. The service charge could be used to finance the mandated minimum wage for all employees. Other solutions would include switching table service type operations to buffet. In the long run, we would anticipate a substantial curtailment of table service restaurants. The public pays tips voluntarily. However, they regard the cost of tipping as part of the cost of eating out. By custom, tips are part and parcel of our pricing structure and have historically been considered part of the remuneration for employees who receive them. Eliminate the tip credit and in a few years you will see about as many waiters and waitresses in the nation's eating places as you now see redcaps in railroad stations.

We also urge the continuation of the 46 hour work week provided by Section 13b8 of the FLSA. Overtime premiums were designed, not to penalize employers, but to spread available work. It should be recognized, however, that many restaurant employees are relatively unskilled and relatively low wage workers. If you eliminate the 46 hour week, restaurants generally will curtail hours, in many instances eliminating the less profitable meals, particularly breakfast. This will not create additional jobs -- rather it will destroy the opportunity for many relatively low paid employees to enhance their earnings. Elimination of the 46-hour work week will particularly hurt the tipped employees who are primarily interested in their potential for tip income. Bear in mind under existing Labor Department regulations a tipped employee

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must be paid cash wages of $1.15 per hour but he must be paid $2.30 cash wage for overtime, a 100% increase. Thus the motivation for employers to eliminate overtime for tipped employees is twice as great as with other employees even though the tipped employee is primarily interested in tips. We believe the 46 hour week is a fair compromise and tends to rectify this unequal effect the law has in discouraging overtime for tipped employees in our industry.

Finally we would like to express our concern about indexing proposed by S. 1871.

We urge at the very least that the law contain some sort of sunset provision to assure that Congress review the actual effect in practice of indexing the minimum wage. We predict a drastic impact on the hotel and restaurant industry, particularly if the tip credit is reduced below 50% of applicable minimum.

One further point on tips needs emphasizing. We are aware that Bill S. 1871 does not have the same modification of the definition of a tipped employee as the bill which was approved by the House Committee on Education and Labor last week.

As we understand the Senate amendment to Section 3(t), it would require that a tipped employee be defined as receiving an amount of tips equal to or exceeding an amount prescribed annually by multiplying the average numbe

of hours worked by employees on a monthly basis by the maximum tip credit permitted during that year by statute.

The full impact of this proposal is staggering for the restaurant, hotel and motel industry and it would create a dollar figure that would push the amount of tips necessary to qualify as a tipped employee so high that the tip credit would be valueless for the food and lodging industry within one day after the implementation of this provision.

The average number of hours worked by an employee in our industries is 30 per week or 120 per month, at the current maximum tip credit of $1.15 per hour (on a $2.30 minimum wage). The employee would have to receive at least $138 in tips during that month before the employer could apply a tip credit.

While starting with the language, the House Committee modified it, deciding instead to raise the threshold amount an employee must receive from $20 to $30 a month to be considered a "tipped employee."

Modification of the definition of a tipped employee we believe should be accompanied by language reemphasizing that the purpose is not to exclude new or part-time employees.

We suggest incorporation into the Senate Committee report on this measure the following language:

> "A new employee during his first month of employment would be considered a tipped employee if he is employed in an occupation

in which he customarily and regularly receives more than $30 a month in tips. Employees commencing employment after the beginning of a calendar month or terminating employment before the end of a calendar month and employees working less than a calendar month because of sickness, vacation or the like would still be considered tipped employees if they were engaged in an occupation in which employees customarily and regularly received more than $30 a month in tips. The definition of a tipped employee does not require that the $30 a month must be received during a calendar month."

This quotation contains the same language referenced in the Senate Labor Committee report on the 1966 amendments to the FLSA [Sen. Report No. 1487, 89th Cong. 2nd Sess., p. 12 (1966).]

In conclusion, we believe that existing minimum wages, which are artificially high for the restaurant employees because they do not give realistic consideration for the value of tips, meals, and free uniforms, have already curtailed previously existing job opportunities. Any curtailment of the existing tip credit will further aggravate this problem. Under existing law the employer has the burden of proof that tipped employees earn in tips at least the tip credit taken by employers. Some adjustment is necessary if teenagers are to retain the existing job opportunities they have in our industry.

IMPACT OF S. 1871 ON DIRECT
WAGE COSTS OF RESTAURANT EMPLOYERS
OF TIPPED EMPLOYEES (OVER 5 YEARS)

Date	Min. Wage Rate	% of Increase From Previous Year	Direct Wages Paid By Employer (assuming tip credit) as Proposed by S. 1871	% Increase From Previous Year
Present	$2.30	N/A	N/A	N/A
Jan. 1, 1978	$2.65	15.2	$1.46	27.0%
Jan. 1, 1979	$2.89*	9.1	$1.74	19.2%
Jan. 1, 1980	$3.15*	9.0	$2.20	26.4%
Jan. 1, 1981	$3.43**	9.0	$2.74	24.5%
Jan. 1, 1982	$3.74**	9.0	$3.36	22.6%
Jan. 1, 1983	$4.08**	9.0	$4.08	21.4%
				Avg. 23.5%/yr.

Cumulative Increase in Minimum Wage, Today to Jan. 1, 1983:

77%

Cumulative Increase in Direct Labor Costs of Employers of Tipped Employees, 12/31/77 to Jan. 1, 1983:

254.8%

* U.S. Dept. of Labor estimates

** Estimated by assuming same rate of increase as in previous years (9.0%)

The CHAIRMAN. Thank you very much.

I will have to abbreviate our questioning because of the time limitations that we are forced under. I do have one question that arises from some of your statements that relate to youth employment. I wonder if any of you in your establishments or in those establishments that you are speaking for in a representative capacity have in the hiring of youth used the section 14 learners subminimum 85 percent rate. Do any of you use that program? Your industry qualifies as I understand.

Mr. NEVILLE. Mr. Chairman, many members of our industry do use the full-time student exemption, the student minimum wage, which I believe is what you are referring to, which is in section 14(b).

The CHAIRMAN. You do use it?

Mr. NEVILLE. Yes. Many of them do and many of them don't for various reasons. The principal reason being the difficulties in getting the certification from the Labor Department.

The CHAIRMAN. That is what I would like to know about, your problems in getting that certification.

Mr. NEVILLE. Perhaps you are aware, Mr. Chairman, that getting this certification involves an application requesting a specific percentage, a percentage of the total hours of employment. And when you file that request for this, these percentages of total hours of employment devoted to full-time student employment can vary from month to month and the Department insists, because of the way the law is written, that you establish a history of this.

They will accept comparisons with other establishments in similar communities to the one you are operating if they are similar in nature, that is, the establishments are similar, if you can produce those. We made strenuous efforts to provide this information to the industry and many of them have used it, but I must tell you the difficulty in providing this information can be overwhelming after a few years.

When the program first started back at the time of the 1974 amendments, we were able to go to the Labor Department and get samples of the certifications that had been granted already so that our members could make these comparisons. But that is no longer possible because the Labor Department's records are not available for us to do that. Am I making myself clear, sir?

The CHAIRMAN. Yes, but I don't understand why records are not available.

Mr. NEVILLE. I can't answer that question, sir.

Mr. HUNT. Mr. Chairman, let me add to that, if I may. The difficulties of securing certification by some of our members arise not only in the area of securing records, which I understand that some of the data could be required back as far as 1966 in order to get your comparative data necessary to secure approval from the Labor Department, but it also arises from the fact that some of the companies have experienced a situation where by the time they file an application to secure approval and by the time the approval finally comes back from the Labor Department many of these employees are gone.

The CHAIRMAN. I am glad I raised it and I am glad you gave me your experience and your observations. We will be following up to find out how the Department thinks it is operating and then we will make our judgment whether it is an effective provision. We worked that out for a very specific reason and it makes some sense I think.

Mr. NEVILLE. You understand too, sir, that this applies only to full-time students. It does not apply to the school leaver or anybody of that sort.

The CHAIRMAN. I appreciate that.

Mr. NEVILLE. It can create problems and some companies will not use it because they do hire school leavers, or dropouts and they don't want two different wages with people of comparable age.

Mr. HUNT. It definitely militates many times against the individual who cannot afford to go to school and who may oftentime need the job in a worse way than the full-time student.

The CHAIRMAN. We are going to follow up and get some oversight on how that is being administered. I appreciate your presentations. As I indicated earlier, you have given us a great deal to digest and think about. Thank you very much. This was a little more abbreviated than I like but we are under limitation here.

We have two remaining panels, a panel of waiters and waitresses and a youth panel. We have just 25 minutes we can meet so we will have to work both panels within that permitted time. I wonder if our waiters and waitresses would come forward. We have five at the table and I have four names on my list, Steve Myers, Hugh Durden, Vickie Davie——

STATEMENT OF STEVE MYERS, HUGH DURDEN, SHARON GARDNER, CAROL TYSON, AND RENEE HIRSCH, WAITERS AND WAITRESSES, JOLLY OX RESTAURANTS

Mr. DURDEN. She is not here, sir.

The CHAIRMAN. Your name is?

Ms. HIRSCH. Renee Hirsch.

The CHAIRMAN. Sharon Gardner and the unnamed chairman of this group?

Ms. TYSON. I'm not the chairman.

The CHAIRMAN. You are right in the middle in the chairman situation. We are going to call on you first.

Ms. TYSON. My name is Carol Tyson, T-y-s-o-n.

The CHAIRMAN. Have you decided who will make a presentation to begin with?

Mr. DURDEN. Yes, sir. I am Hugh Durden. We have gone through the introductions informally.

The CHAIRMAN. You are both from the Jolly Ox.

Mr. DURDEN. We are all from the Jolly Ox.

The CHAIRMAN. There are various Jolly Ox.

Mr. DURDEN. There are several in the area.

The CHAIRMAN. Jolly Oxen.

Mr. DURDEN. We are all, as you said, waiters, tipped employees at various area restaurants in one chain. We have been informally lobbying on the House side for 2 weeks or more regarding their version of the same legislation. This has not been a very orchestrated compaign, although an allusion was made to that earlier this morning. At least, if it has been all the instruments have played to their own tune. It has been primarily very informal.

The CHAIRMAN. Is this a career that you are in or is something you are doing on your way to theater, or something like that?

Mr. DURDEN. No, sir, I have been a waiter for the past couple of years. I am a full-time waiter. That is not true of all of us. We represent something of a spectrum here. Am I being overtheatrical?

The CHAIRMAN. No; but I know that this activity you are in in New York is a godsend for people who are not occupied as they would first prefer to be in the theater and until their time comes to be on stage they do this.

Mr. DURDEN. I am familiar with waiters in New York who have done that—actors in New York who have been waiters, but that is not the case with any of us.

The CHAIRMAN. There is a little restaurant over on the East Side, Maxwell's Plum. I think many of the waiters and waitresses are hoping to find a place in theater and in the meantime not only do they wait, they entertain. When "Happy Birthday" is sung it is beautiful to listen to, which is unusual.

Mr. DURDEN. We do something of the same nature.

The CHAIRMAN. "Between engagements" I think.

Mr. DURDEN. In our case it is under duress. You have to drag people out to sing.

At any rate, as we have informally gotten involved with this, the more involved we have gotten the more involved we have realized we already are because this affects us so much as tipped employees. There are two or three points that we would like to hit. I think you have probably heard in one form or another most of them already, but you have heard them from management and I think it is significant that we are labor—lower case labor, but labor nevertheless—and we happen to take the same point of view, though perhaps for slightly different reasons.

The first thing I would like to say is that we are all guaranteed the minimum wage. We have run into some misapprehension over on the House side that there are instances in which people might not be getting the minimum wage, and this is simply not the case. As I understand it, the whole intent of this legislation is backed by the minimum wage philosophy which is that everybody should be guaranteed a certain amount in return for any given hour's work, and we are. We cannot make less than the minimum wage.

Our concern is the negative impact of this legislation on our income. That is, we realize that in one sense it is going to be giving us more. Our concern is that at the same time it is going to be taking considerably more than that away from us.

It is quite apparent that with the cost increases that this legislation will mandate somebody is going to have to pay the extra price in some form or another.

Ms. TYSON. I think that the people who were up here before us have already gone over what is going to happen if this legislation goes through. Labor costs are going to go up and if labor costs go up, menu prices are going to go up. I am a waitress and I have seen what can happen when prices on the menu go up. Just last week I had an elderly couple say to me, "Miss, did the prices just get raised?" And I said, "Yes, they did." They said, "We don't eat out often but we notice these things and we can't afford to eat out if the prices continue to spiral upward."

And, as I said, if labor costs go up, menu prices go up and if a certain segment of the market is no longer coming in to the restaurant the

volume in the restaurant goes down, my tips go down, my income goes down and I am losing out.

Also, I have been the victim of a labor cutback in my particular restaurant, and it's no fun and if this bill goes through it has the effect of possibly having my job eliminated. I have had my hours cut before, had them cut in half. Perhaps a door hostess or a busboy may be taken off the schedule. A waiter or waitress may be performing more functions in the restaurant. If he or she is performing more functions in the restaurant that may mean a customer is less satisfied with the service that he or she is receiving.

If there is customer dissatisfaction then the customer is not going to be a repeat customer. He won't come back and it is going to affect me in the end. The way it goes, we can lose out.

Ms. GARDNER. I think another important point, in the statement that we received from the union they listed that tips are not wages but gifts given to the employee by the customer. I disagree with this. We declare tips as wages, we pay tax on it as wages. It is the major part of our income.

I think, when a customer decides to come into a restaurant to dine out and be served a meal he is paying for the food as well as the service. He is paying the restaurant for the food and he is paying his waiter or waitress for the service they have performed. The amount that he pays is dependent upon what kind of service he gets, and I think this is a good system. It gives us motivation and incentive to do a better job.

The CHAIRMAN. I have to go to testify at another committee and Senator Javits, our ranking member on the committee will be here.

Let me ask just one question before I go. You mentioned the union gave you something. Are you all members of the union?

[A chorus of "No."]

Mr. DURDEN. This is what was mentioned this morning.

Senator JAVITS. You are not union employees?

Mr. DURDEN. We are not.

The CHAIRMAN. Have you ever in your establishments had an election, a representation election for a union?

Mr. DURDEN. Not to my knowledge.

Ms. TYSON. No.

The CHAIRMAN. You don't know Mr. Bob Juliano?

Ms. HIRSCH. The system has worked the way it is. We don't feel a need for unions.

Senator JAVITS. Do that again, I didn't hear you.

Ms. HIRSCH. The system, as it is now with tip credit, has worked very well in all the restaurants I have worked in. We haven't felt a need that we had to unionize to get more. We make a good income now.

Mr. DURDEN. I would like to speak on something Sharon said. She said that tips are the bulk of our wage. In terms of take-home pay, they are 100 percent of our wage in effect, or very close to it in those cases where it is not 100 percent. Tips are what we work for. The amount the restaurant pays us is very close to being negligible. Nobody counts on that.

Senator JAVITS. Could you make an estimate as to your hourly compensation, combining tips and what you are paid?

Mr. DURDEN. Combining tips and what we are paid—there is quite a range there but I would say $6 to $13, probably an average of $7 to $9.

Senator JAVITS. $7 to $9 an hour?

Mr. DURDEN. That counts $1.15.

Senator JAVITS. Tips themselves pay somewhere between $5 and——

Mr. DURDEN. $5 and $12. It varies quite a bit from employee to employee, but it is obviously a very significant sum.

Mr. MYERS. Also, in the labor statement it states that if an employee is successful in receiving $1.15 from his tips—all I have to do is wait on one table, one four top a night and I make that $1.15 for the total hours I worked that evening. If I go to a table and just take an order and just serve the meal I get a tip, so it is not that we recognize it is accepted practice in our industry for people to leave a tip for our service, it is up to the discretion of the person where the people might walk out on leaving a tip. But there is also the person that walks out without paying for the check. These percentages are really slight.

Senator JAVITS. Is there anything further anyone wishes to add?

Mr. TYSON. Yes; I would like to say something. There has been some talk about how we don't make the minimum wage per hour and I have been in the situation, a slow time in January when business was really down after Christmas and I didn't make the $2.30 or so an hour, but it was made up by a wage adjustment on my paycheck that was made up by the company. So, I am making at least minimum wage.

That rarely happens in my case but there are slow periods during the year when it can occur.

Senator JAVITS. Thank you.

Mr. MYERS. Also, being a student—I take food and beverage at Montgomery College in Montgomery County—and there are quite a few of the classmates, friends of mine that do work in coffee shops, work for Hot Shoppes, for Bob's Big Boy. They are making good money too. I have a friend that works as just a beverage waiter on Sundays. He works Sunday only and he is making $65. All he does is serve beverages. He doesn't take any orders, anything.

Senator JAVITS. Thank you all very much, unless there is something else to add. We only have until 12 o'clock.

Our next panel is composed of Gene Lynch, Duane Holman, Deborah Peterson, Michael O'Leary. Would you all come forward.

Would this panel be kind enough to remain in the room after we are through because Senator Williams wants to talk with you and he might not get back by 12?

Also, are any of you restaurant workers?

STATEMENTS OF GENE LYNCH, EXECUTIVE DIRECTOR, FRONTLASH, DEBORAH PETERSON, COORDINATOR, NEW YORK STATE FRONTLASH, KEVIN CALLWOOD, YOUNG DEMOCRATS OF AMERICA, ELLEN VOLLINGER, DIRECTOR, ADA YOUTH CAUCUS, AND MICHAEL O'LEARY, A PANEL

Mr. O'LEARY. I used to be a restaurant worker.

Senator JAVITS. You are not now?

Mr. O'LEARY. Not now.

Senator JAVITS. What is your name?

Mr. O'LEARY. Michael O'Leary.

Senator JAVITS. Anyone else?

Mr. CALLWOOD. I used to be a restaurant worker.

Senator JAVITS. You are not now?

Mr. CALLWOOD. Not now.

Senator JAVITS. What is your name?

Mr. CALLWOOD. Kevin Callwood. I am representing Mr. Holman.

Senator JAVITS. I just wanted to be sure none of you were restaurant workers. Who wants to lead off?

Mr. LYNCH. Miss Peterson will lead off.

Senator JAVITS. Deborah Peterson, coordinator, New York State, Frontlash. Tell us what Frontlash is first, Miss Peterson.

Ms. PETERSON. Frontlash is a nonpartisan youth organization that engages in various types of political activity. We primarily do voter registration, voter education, get-out-the-vote drives prior to election day and try and get young people more interested in politics and also get them involved somewhat in the labor movement.

I would like to testify on behalf of Senate bill 1871, which would upgrade the national minimum wage to $2.65 as written now. My experiences as a worker—presently I am unemployed. I work voluntarily for Frontlash. I don't receive any wages for it. But, I think, from the testimony that has been given previously to mine it has been pointed out that a person who works now at minimum wage cannot make enough money to even be over the poverty level that is established by the Federal Government, and that is somebody working a 40-hour work week at $2.30 an hour.

Just from that alone, I think it would be evident to the majority of the people here that it is necessary to have the minimum wage upgraded just in order to allow people to be able to make enough money just to have a decent standard of living. Most persons presently who are working at minimum wage find it necessary, especially in areas where I come from like New York, where the standard of living is so much higher and difficult to be able to pay rent, to buy food, et cetera, just the basic necessities of life, most minimum wage workers there are forced to become recipients of various kinds of Federal assistance programs such as welfare, food stamps, medicaid, et cetera in order to be able to meet their daily needs.

At the same time, taxpayers are constantly screaming about the increase of the loads of people on welfare and various types of assistance programs, how it puts more pressure on them to pay more taxes, politicians are constantly trying to come up with solutions to help lower the welfare rolls, et cetera, and these things apply particularly to minorities since they happen to make up the bulk of people who require Federal assistance and very little is discussed about the working poor, people who work every day for a living but yet still are forced to have to become recipients of these types of assistance programs just to pay their basic bills, et cetera.

It doesn't provide very much of an incentive for both young people and older people to work in that if you are working every day, 40 hours a week at minimum wage and you still have to get money from the Federal Government just to be able to live. Why should you go and work if they can support you completely?

This is something that is very prevalent among minorities. It has always been pointed out the large number of blacks and others who are on the welfare rolls. It is the responsibility, I feel, of the Government to create a situation whereby people who are able to work can find jobs and once they do get a job they can make enough money to live on without having to go elsewhere in order to supplement their wages.

In regard to the amendment to attach a subminimum wage bill along to this one for younger people, I find that not only to be discriminatory against young people but I feel it would create a situation that would be harmful in that by establishing a subminimum wage all you would be doing is allowing employers to have the opportunity to trade off older workers for younger workers who they would be able to pay less money for doing the same job.

I doubt very much if it would create too many more jobs for anybody. It wouldn't solve the problem of youth unemployment really because you would still have a large number of young people who were out of work besides the fact that those who would be working would not be really making enough money to support themselves or even to supplement their own family's income to any great extent.

A lot of people across the country were totally appalled by the looting and rioting that went on in New York after the blackout that just occurred last week. But, one of the things I think is important to note is that a large number of those people that were arrested for looting were young people who were either unemployed or who, if they were working, were working for very low wages, people for whom this was an opportunity that they saw to get something for nothing because they didn't have the money to be able to buy it for themselves.

And I think it is very necessary when you talk about the different problems that are attacking and plaguing young people and poor people in this country, to come up with viable alternatives to them to give them a chance to be able to provide themselves with a decent standard of living and not constantly having to receive handouts from other people.

Senator JAVITS. Miss Peterson, I am afraid we will run out of time. We have only got a very few minutes because of the rules of the Senate. We can't sit beyond 12 o'clock.

Ms. PETERSON. OK. I would just like to urge the Senators on this committee to support this piece of legislation and to support the other statements.

Senator JAVITS. Thank you. Who is next?

Mr. O'LEARY. Michael O'Leary.

Senator JAVITS. You are Michael O'Leary, college student and minimum wage worker.

Mr. O'LEARY. Yes. I am not representing Frontlash or Young Democrats. I am just here as a minimum wage worker and a full-time student.

My dad is a 52-year-old man and because of some bad reverses for the past several years, he has been forced to work for the minimum wage. Therefore, of course, my mother has to go out and is employed to make ends meet for my family. I've got five kids in my family. I am the youngest. There has never been any money for higher education.

My oldest sister got her R.N. and B.S. degrees through a series of loans, grants, and working her way through school. Another sister of mine worked her way through school to get her associate degree as a laboratory technician.

Neither of my parents had the advantage of a college education and they have always encouraged their children to get as much training as possible. I have been employed since I was a freshman in high school. I worked as a busboy in a seafood house, and a delivery boy in a pharmacy and I am currently putting myself through as a janitor.

I have a breakdown of how much it is going to cost me for my sophomore year in college. My tuition at Jefferson Community College is——

Senator JAVITS. Give us the gross figure.

Mr. O'LEARY. $1,240, sir, just for 1 year, my sophomore year in college. This is just a community college.

Senator JAVITS. Does that include your living at home and so on?

Mr. O'LEARY. That includes my books and supplies for 1 year, clothing for 1 year, meals and transportation for 1 year and, of course, I want to submit this.

Senator JAVITS. What about rent?

Mr. O'LEARY. I don't pay rent but I do contribute to my family through paying for my insurance and helping my mother when she needs some money for meals and that type of thing.

Senator JAVITS. So you need the high minimum wage?

Mr. O'LEARY. Yes, sir. And I think it is absurd to think of putting in a subminimum wage. That is ridiculous.

Senator JAVITS. Is that it, Mr. O'Leary?

Mr. O'LEARY. That will be all.

Senator JAVITS. Thank you.

Duane Holman, Young Democrats.

Mr. CALLWOOD. I am Kevin Callwood representing the Young Democrats of America. Mr. Holman, our recently reelected president, could not be here today and asked me to present the position of the YDA on this matter.

Minimum wage legislation and specifically subminimum provisions are of great concern to the Young Democrats. As an organization of over 250,000 young people who are actively engaged in the political process, we feel that subminimum wage is an atrocity to young people and their rights to survive.

Last week we had our national convention in Miami and at this convention 1,000 delegates from 50 States and the Virgin Islands met to discuss the current issues of today. At the top of the list was the proposed changes in the Fair Labor Standards Act embodied in H.R. 7344 and S. 1871. By a resounding vote, this group of 1,000 elected representatives of young people all across the country passed the following resolution:

Whereas, young people are a substantial portion of those workers who earn minimum wage; and whereas, the fact is that many teenagers support themselves and some also support families, and students often must work to continue their education;

We, the Young Democrats of America support the Dent bill, H.R. 3744, which will increase the minimum wage initially to $2.65 an hour.

In addition, we are opposed to a youth subminimum wage. The Youth Unemployment and Minimum Wage bulletin No. 1657 found that the existing economic climate, not minimum wage increases dictate job opportunities for young people.

Therefore, since young people, as a result of their artificially low incomes suffer from inadequate health care, housing, and skyrocketing tuition rates, we support an indexed $2.65 an hour minimum wage for all working Americans.

I believe that this makes the feeling of more than 250,000 young people clear. We are in complete support of S. 1871 and in staunch opposition to any subminimum wage for young people.

Senator JAVITS. Thank you very much.

Ms. VOLLINGER. My name is Ellen Vollinger and I am the director of the Youth Caucus of Americans for Democratic Action. I have a very short statement to read.

I am very grateful for the opportunity to testify in support of the minimum wage bill. Approximately one-third of those who are earning the minimum wage are under the age of 20. These, and other young workers, are currently working on a minimum wage level that, even with full-time work, results in the annual income below poverty level. Approval of a $2.65 minimum wage will allow both young and old workers greater access to adequate health care, housing and higher education.

I especially urge you to vote against any amendments which would weaken this bill, particularly any amendments that seek to establish a subminimum wage for youth. The very people who would supposedly benefit from a wage differential—America's youth—reject it as a solution to the problem of youth unemployment.

Just last weekend at the National Conference for State Student Associations in Columbia, Mo., 49 representatives of 26 State student associations and the staffs and boards of the two largest student organizations in the country—the U.S. National Student Association and the National Student Lobby—went on record against the establishment of a subminimum wage for youth.

There has been no significant proof that subminimum wages would substantially expand youth employment, and Dr. Allen Fischer's study for the Labor Department indicates that making youth the source of cheap manpower would lead not to the creation of new jobs but to the displacement of adult workers from existing jobs.

The members of ADA's youth caucus want jobs, but we want them at a decent wage rate and not at the expense of older workers.

The establishment of a separate wage rate for youth contradicts the concept of equal pay for equal work. Wages in this country should be based on the type of work rather than on the age of the person doing the job. A subminimum wage for youth would mean less in earnings for employed young people, many of whom head households or substantially supplement a family income, and who, nonetheless, must meet the steady increases in the cost of a basic minimum life.

For many young adults and teenagers, the ability to be self-sufficient is critical in the development of a responsible approach to work and

employment. If our aim is to provide training and jobs for the Nation's young, then let's do that. A subminimum wage for youth will accomplish neither of these ends and will only severely undermine the labor market.

Senator JAVITS. Thank you very much.

Our last witness is Gene Lynch, and we have stopped the clock, Gene.

Mr. LYNCH. Real quickly, I am just going to summarize the basic points that have been made by the four speakers and request that the full statements of all the speakers be put into the record.

First of all, the elected representatives of young people in this country have come together and have made the statement that it is absolutely vital, from both an economic and the viewpoint of justice, that the minimum wage be raised to at least the poverty level, at least $2.65, and that it be kept there by an indexing formula which must be at least 53 percent of the base manufacturing wage.

Second, the facts show that an increase in the minimum wage will not create unemployment and it might very well increase employment due to the added buying power which will be added to the lowest income spectrums.

And, third, the general phasing out of the tip credit allowance is necessary to provide justice for waiters and waitresses and this gradual phasing out will further the goals and benefits of the entire wage floor theory.

Fourth, any substandard wage for young people is simply discrimination and it will not create additional jobs, and every single Labor Department study that has ever been done, the most authoritative studies, have proven this time and time again. And, the only effect that any subminimum wage could possibly have on youth employment was that possibly some younger workers might be hired, but they would be hired at the expense of older workers who, in our viewpoint, need the work more and this is not the proper way to create jobs for unemployed teenagers.

Finally, I would like to present a statement which I hope can be put into the record, a statement that has been signed by over 15 heads of the largest youth organizations in the country, which I think is the only adequate way to represent the real needs and desires of the young people of this country.

Senator JAVITS. What is the organization?

Mr. LYNCH. There is a whole list of organizations. It ranges from the recruitment and training program to the National Young Democrats——

Senator JAVITS. All combined into one statement?

Mr. LYNCH. Yes, they are all combined into one statement.

Senator JAVITS. Without objection, it will be included.

[The following was submitted for the record:]

GENE LYNCH
TESTIMONY BEFORE THE UNITED STATES SENATE

COMMITTEE ON HUMAN RESOURCES
SUBCOMMITTEE ON LABOR

August 4, 1977

MY NAME IS GENE LYNCH AND I AM THE EXECUTIVE DIRECTOR OF FRONTLASH I WOULD LIKE TO BRIEFLY SUMMERIZE THE VARIOUS POINTS MADE BY THE PREVIOUS FOUR SPEAKERS.

FIRST, IT IS ABSOLUTELY VITAL FROM A VIEWPOINT OF JUSTICE AND ECONOMIC NECESSITY THAT THE MINIMUM WAGE BE RAISED TO AT LEAST THE POVERTY LEVEL AND KEPT THERE BY INDEXING. THE INDEXING MUST BE AT LEAST 53% OF THE BASE MANUFACTURING WAGE TO KEEP AMERICA'S WORKING POOR AT AN EQUITABLE RATE OF COMPENSATION.

SECOND, THE FACTS SHOW THAT AN INCREASE IN THE MINIMUM WAGE WILL NOT CREATE UNEMPLOYMENT AND MIGHT VERY WELL INCREASE THE NUMBER OF JOBS DUE TO ADDED BUYING POWER.

THIRD, THE GENERAL PHASING OUT OF THE TIP CREDIT ALLOWANCE IS NECESSARY TO PROVIDE JUSTICE FOR WAITERS AND WAITRESSES AND THIS GRADUAL PHASE OUT WILL FURTHER THE GOALS AND BENEFITS OF THE ENTIRE WAGE FLOOR THEORY.

FOURTH, ANY SUBSTANDARD WAGE FOR YOUNG PEOPLE IS SIMPLY DISCRIMINATORY, FURTHER IT WILL NOT CREATE ADDITIONAL JOBS FOR TEENAGERS BUT COULD ONLY DISPLACE OLDER WORKERS.

AND FINALLY, I WOULD LIKE TO PRESENT A STATEMENT SIGNED BY THE ELECTED OFFICIALS OF MOST MAJOR YOUTH ORGANIZATIONS IN THIS COUNTRY WHICH CLEARLY STATES THIS DESIRE FOR A FAIR AND EQUITABLE WAGE FOR ALL WORKERS WITH NO SUB-MINIMUM WAGE FOR YOUNG PEOPLE.

98-912 O - 78 - 45

MICHAEL O'LEARY
TESTIMONY BEFORE THE UNITED STATES SENATE
COMMITTEE ON HUMAN RESOURCES
SUBCOMMITTEE ON LABOR

August 4, 1977

I AM MICHAEL O'LEARY FROM LOUISVILLE, KENTUCKY, A PRE-LAW STUDENT AT JEFFERSON COMMUNITY COLLEGE IN LOUISVILLE, AND I AM HERE TO ADVOCATE THE SAME MINIMUM WAGE APPLYING TO ALL AND NOT TO DISCRIMINATE AGAINST STUDENTS AND YOUNG PERSONS. I DO NOT SPEAK FOR ANY ORGANIZATION LIKE FRONTLASH OR THE YOUNG DEMOCRATS. I CAN ONLY SPEAK FOR MYSELF, AS A YOUNG PERSON WHO WORKS EVERYDAY TO MAKE ENDS MEET.

I THOROUGHLY BELIEVE THAT EDUCATION IS ONE OF THE MOST IMPORTANT TOOLS BY WHICH WE CAN ELIMINATE POVERTY ADD ATTAIN FINANCIAL SUCCESS. BUT PAYING YOUR WAY THROUGH COLLEGE IS NOT A FINANCIALLY SIMPLE PROPOSITION. EVEN IF YOU SO TO A STATE SUPPORTED SCHOOL, SUCH AS THE JEFFERSON COMMUNITY COLLEGE WHICH I ATTEND.

WE IN LOUISVILLE ARE FORTUNATE IN HAVING A FACILITY LIKE JEFFERSON COMMUNITY COLLEGE BECAUSE THE TUITION THERE IS ONLY $195 PER SEMESTER FOR AS MANY CREDIT HOURS AS YOUR COURSE MAY REQUIRE. IT IS PART OF THE STATE COLLEGE SYSTEM AND THE CREDITS ARE TRANSFERABLE TO ANY KENTUCKY SENIOR COLLEGE. TO BE CONSIDERED A FULL-TIME STUDENT YOU MUST TAKE AT LEAST TWELVE CREDIT HOURS, HOWEVER, THE $195 TUITION CHARGE COVERS AS MANY HOURS IN EXCESS OF TWELVE YOU MAY NEED. OF COURSE, THIS TUITION FIGURE DOES NOT INCLUDE ANY FEES, BOOKS AND SUPPLIES OR LIVING EXPENSES.

MY DAD IS FIFTY-TWO YEARS OLD AND BECAUSE OF SOME BAD REVERSES FOR THE PAST SEVERAL YEARS, HE HAS BEEN FORCED TO WORK FOR THE MINIMUM WAGE AND MY MOTHER WAS OBLIGED TO SEEK EMPLOYMENT OUTSIDE TO MEET OUR EVERYDAY LIVING COSTS. THERE ARE FIVE CHILDREN IN OUR FAMILY AND MONEY HAS ALWAYS BEEN SCARCE. MY OLDEST SISTER WAS ABLE TO EARN HER BS AND RN DEGREES THROUGH A SERIES OF LOANS, GRANTS AND WORKING HER WAY THROUGH SCHOOL. ONE OF MY OTHER OLDER SISTERS WORKED HER WAY THROUGH JEFFERSON COMMUNITY COLLEGE AND EARNED AN ASSOCIATE DEGREE AS A

LABORATORY TECHNICIAN. THERE JUST HAS NEVER BEEN MONEY AVAILABLE TO FINANCE HIGHER EDUCATION. NEITHER OF MY PARENTS HAD THE ADVANTAGE OF A COLLEGE EDUCATION, BUT THEY HAVE ENCOURAGED US CHILDREN TO GET AS MUCH TRAINING AS POSSIBLE.

I HAVE BEEN EMPLOYED SINCE I WAS A FRESHMAN IN HIGH SCHOOL. I WORKED AS A BUSBOY AND AS A COOK IN A SEAFOOD HOUSE, AS A DELIVERY BOY FOR A PHARMACY AND CURRENTLY I AM PUTTING MYSELF THROUGH COLLEGE BY WORKING AS A JANITOR. MY FIRST PAY WAS $1.45 PER HOUR AS A BUS BOY AND NOW I AM EARNING THE MINIMUM WAGE. I AM ABLE TO AVERAGE ONLY TWENTY HOURS PER WEEK DURING SCHOOL TIME.

I HAVE COMPLETED MY FRESHMAN YEAR IN PRE-LAW AND WILL BE ABLE TO COMPLETE MY SECOND YEAR AT JEFFERSON COMMUNITY COLLEGE AT THE MINIMUM TUITION RATE I MENTIONED BEFORE. EVEN WITH THIS RATE I FIGURE IT WILL COST ME APPROXIMATELY $1,240 TO COMPLETE MY SOPHMORE YEAR. THIS BREAKS DOWN AS FOLLWOS:

TUITION - 2 SEMESTERS AT $195 ----------	$ 390.
BOOKS AND SUPPLIES TOTAL FOR YEAR---------	150.
CLOTHING FOR YEAR ----------	150.
MEALS AND TRANSPORTATION FOR YEAR---------	400.
MISCELLANEOUS ----------	150.
	$1,240

THESE ESTIMATES, WITH THE EXCEPTION OF THE TUITION COSTS, ARE PUBLISHED IN THE 1975-76 BULLETIN PUT OUT BY THE UNIVERSITY OF LOUISVILLE. THEY COVER ESTIMATED EXPENSES OF A COMMUTING STUDENT . YOU CAN SEE THEY ARE ON THE LOW SIDE BECAUSE OF INFLATION.

ALTHOUGH MY FAMILY DOES NOT FALL INTO THE 22.9% OF THE POPULATION OF KENTUCKY WHICH WAS LISTED IN THE 1969 CENSUS AS BEING BELOW THE POVERTY LINE, MY PARENTS CANNOT HELP SINCE MY DAD WORKS FOR THE MINIMUM WAGE, AND AS YOU WELL KNOW, WOMEN'S SALARIES ARE STILL CONSIDERABLY LOWER THAN MEN'S.

I AM GOING TO BECOME A LAWYER. FOR THE NEXT SEVEN YEARS I HAVE MY WORK

CUT OUT FOR ME. I AM A PERSON WHO HAS TO STUDY HARD TO PASS MY COURSES. THIS MEANS THAT IN ORDER TO BE ABLE TO WORK AND GO TO SCHOOL, I HAVE TO LIMIT MY EXTRA CURRICULAR ACTIVITIES AND MY SOCIAL LIFE. I WILL NOT HAVE THE TIME TO PARTICIPATE IN SPORTS, AND THERE HAVE BEEN TIMES WHEN MY JOB HAS KEPT ME FROM FAMILY OUTINGS. I CANNOT AFFORD TO MISS WORK.

EVEN IF THE MINIMUM WAGE IS SET AT $2.65 PER HOUR, IT WILL BE VERY DIFFICULT FOR ME TO EARN ENOUGH MONEY TO PAY MY WAY THROUGH SCHOOL. STUDENTS LIKE ME WHO WORK, ARE WORKING BECAUSE THEY HAVE TO IN ORDER TO STAY IN SCHOOL. I'D LIKE TO STRESS THE POINT THAT WE HAVE TO WORK. WE DON'T WORK FOR FUN. IT IS NO FUN TO GO TO CLASS, THEN TO THE BUILDING WHERE I DO JANITOR WORK AND THEN BACK HOME AT NIGHT TO STUDY. IN FACT, IT IS A GRIND. I AM SPEAKING FOR MANY STUDENTS WHEN I TELL YOU THAT OUR PAYCHECKS DO NOT GO TO SUPPORT CARS AND OUR SOCIAL LIFE. THEIR MAIN PURPOSE IS TO KEEP US IN SCHOOL. A FULL-TIME WORKING STUDENT HAS TO BE A HIGHLY MOTIVATED INDIVIDUAL WHO RECOGNIZES THE WORTH OF A GOOD EDUCATION AND IS WILLING TO SACRIFICE TO GET IT. ALL I ASK IS THAT YOU MAKE IT POSSIBLE FOR ME TO WORK AT A DECENT WAGE UPON WHICH I CAN AT LEAST HOPE TO LIVE.

I CAN SEE NO VALID REASON FOR A SUBMINIMUM WAGE, ESPECIALLY IF BASED SOLELY ON AGE. IF AN INDIVIDUAL CAN PERFORM HIS JOB IN A GOOD AND EFFICIENT MANNER, HE SHOULD BE PAID ON THAT BASIS. IF HE DOES NOT PERFORM HIS JOB PROPERLY, HE SHOULD BE FIRED. I HAVE ALWAYS TRIED MY BEST TO DO A GOOD JOB FOR EACH OF MY EMPLOYERS. I FEEL THAT ALTHOUGH I WAS 16 WHEN I WAS WORKING AS A COOK AT THE SEAFOOD HOUSE, I DID AS GOOD A JOB OF COOKING AS ANY OF THE OLDER PEOPLE. IF I HADN'T, I WOULD HAVE BEEN SENT BACK TO BEING A BUSBOY. SINCE I WAS DOING A GOOD JOB, I DESERVED THE SAME PAY AS THE OLDER COOKS.

JOB ABILITY IS NOT BASED ON AGE. ALTHOUGH EXPERIENCE IS VERY HELPFUL, IN MA NY OF THE MINIMUM WAGE TYPE JOBS, EXPERIENCE CAN BE GAINED IN A VERY SHORT TIME. YOUNG PEOPLE ARE QUICK TO LEARN AND EASILY ADAPTABLE. THE

YOUNG WORKING STUDENT PARTICULARLY WILL BE AN INTELLIGENT INDIVIDUAL AND A SERIOUS EMPLOYEE SINCE THE REASON HE IS WORKING IS TO BE ABLE TO RECEIVE AN EDUCATION THAT WILL ALLOW HIM TO BREAK THE POVERTY CYCLE.

JOBS THAT PAY AN ADEQUATE WAGE ARE WHAT ARE NEEDED BY THE WORKING STUDENT AND BY THE YOUNG PERSON WHO PREFERS TO GO TO WORK ON A FULL-TIME BASIS INSTEAD OF CONTINUING HIS EDUCATION. IF THE JOB DOES NOT PAY ENOUGH TO ENABLE A PERSON TO DEVELOP A PURCHASING POWER, THE JOB IS NOT REALLY CONTRIBUTING TO THE ECONOMY AND TO THE HEALTH OF OUR NATION.

SO, I ASK YOU, FOR MYSELF, AND FOR OTHERS LIKE ME TO PASS A MINIMUM WAGE BILL WHICH WILL GIVE US A CHANCE. PLEASE DON'T CREATE A SUBSTANDARD WAGE FOR YOUNG PEOPLE, WE SIMPLY CAN'T AFFORD IT.

FRONTLASH
TESTIMONY BEFOR THE UNITED STATES SENATE
COMMITTEE ON HUMAN RESOURCES
SUBCOMMITTEE ON LABOR

August 4, 1977

IN OUR SOCIETY, THE THEMES OF THE INDIVIDUAL AND THE AMERICAN WORK ETHIC HAVE PREVAILED THROUGHTOUT OUR HISTORY IN THE NEW WORLD. THESE TWO BASIC PRINCIPLES HAVE KEPT THE UNITED STATES ECONOMY STRONG AND OUR STANDARD OF LIVING ONE OF THE HIGHEST IN THE WORLD. IN ORDER TO RETAIN THE STRENGTH OF OUR ECONOMY AND OUR STANDARD OF LIVING, IT IS NECESSARY THAT THE MINIMUM WAGE ACT AS A FLOOR ABOVE WHAT IS CONSIDERED THE LEVEL OF POVERTY. THE MINIMUM WAGE LAW, FAIR LABOR STANDARDS ACT, WAS FIRST ENACTED IN 1938,AND AMENDED PERIODICALLY DURING THE PAST 40 YEARS. THE LAW PROVIDES NOT ONLY MINIMUM WAGE PROTECTION, BUT PLACES A CEILING ON HOURS OF WORK AT REGULAR RATES OF PAY, PROHIBITS CHILD LABOR ABUSES AND REQUIRES EQUAL PAY FOR MEN AND WOMEN FOR THE SAME WORK. THE MINIMUM WAGE LAW STATES:

> "A MINIMUM STANDARD OF LIVING NECESSARY FOR HEALTH, EFFICIENCY, AND GENERAL WELL BEING OF WORKERS."

OUR LAWS WERE MADE TO PROTECT THE INDIVIDUAL CITIZEN AND TO ASSURE ALL PEOPLE EQUAL RIGHTS AND AN EQUAL CHANCE TO ASCEND THE "LADDER OF SUCCESS." RECENTLY, HOWEVER, IT IS THOSE PEOPLE ON THE BOTTOM RUNG, THE MINIMUM WAGE EARNERS, WHO HAVE NOT BEEN GIVEN THIS OPPORTUNITY. A MINIMUM WAGE THAT YIELDS ABOVE-POVERTY EARNINGS FOR A WORKER AND HIS FAMILY WOULD BE SIMPLE JUSTICE AND REINFORCE THE WORK ETHIC UPON WHICH OUR SOCIETY IS BASED.

THOSE PEOPLE AFFECTED MOST BY MINIMUM WAGE LEGISLATION ARE LARGELY THE UNSKILLED WORKERS IN A VARIETY OF INDUSTRIES, TOTALLING APPROXIMATELY 4.5 MILLION. SINCE THESE UNSKILLED WORKERS HAVE NO BARGAINING POWER WITH THEIR EMPLOYERS, THEY HAVE TO RELY UPON THE GOVERNMENT TO PROTECT THEIR INTERESTS. MINIMUM WAGE SHOULD BE HIGH ENOUGH FOR A WORKER WITH A 40 HOUR WORK WEEK TO LIVE ABOVE THE POVERTY LEVEL, AND SHOULD INCREASE AUTOMATICALLY IN TURN WITH THE RISING ECONOMY SO THAT THESE WORKERS

WILL NOT FALL CONSTANTLY BEHIND OTHER WORKERS IN REAL BUYING POWER. THE PROPOSED INCREASES IN S.1871 WOULD GRADUALLY HELP LOW WAGE WORKERS RECOUP FROM THE DISASTEROUS INFLATION OF THE LAST FEW YEARS, AND ASSURES THAT BY THE EARLY 1980's, THE MINIMUM WAGE WOULD MEET AND SURPASS THE POVERTY LEVEL AS DEFINED BY OUR GOVERNMENT. BY JAN.1,1980, THE MINIMUM WAGE SHOULD BE AT LEAST 53% OF THE AVERAGE MANUFACTURING WAGE. THE WAGE SETTING TECHNIQUES INCLUDED IN THIS BILL WOULD OFFER MANY ADVANTAGES. LOWER WAGE WORKERS WOULD BENEFIT FROM A SYSTEM OF ANNUAL INCREASES WITHOUT WAITING FOR LEGISLATION TO PASS CATCH-UP INCREASES. THE SMALLER PREDICTABLE INCREASES WOULD PROVIDE GREATER STABILITY TO THE WAGE SETTING PROCESS, THEREBY SMOOTHING THE UPS AND DOWNS OF BUSINESS CYCLES. MINIMUM WAGE WORKERS WOULD SHARE IN IMPROVEMENTS IN THE ECONOMY BY HAVING THEIR WAGES TIED TO WAGES GENERALLY. AN ESCALATOR PROVISION IN THE F.L.S.A. WOULD PROTECT THE"REAL WAGE POSITION" OF MINIMUM WAGE WORKERS. THE LABOR MOVEMENT HAS DONE AN EXCELLENT JOB OF PROTECTING THE "REAL" WAGES OF ORGANIZED WORKERS. OUR GOVERNMENT MUST BE JUST AS CONCERNED WITH PROTECTING THE REAL WAGES OF THE MINIMUM WAGE WORKER.

THOUGH IT HAS BEEN ARGUED THAT A MINIMUM WAGE WOULD CAUSE MORE UNEMPLOYMENT AMONG TEENAGERS, THIS ARGUMENT IS TOTALLY GROUNDLESS. THE FACTS ARE THAT YOUTH UNEMPLOYMENT HAS GENERALLY DECLINED FOLLOWING MINIMUM WAGE INCREASES BECAUSE THIS ADDED BUYING POWER STIMULATES PRODUCTIVITY THUS CREATING MORE JOBS FOR EVERYONE. THE LABOR DEPARTMENT'S STUDY OF THE RELATIONSHIP OF MINIMUM WAGES TO YOUTH UNEMPLOYMENT STATED:

> "A SIGNIFICANT FINDING WAS THAT IT WAS DIFFICULT TO PROVE ANY DIRECT RELATIONAHIP BETWEEN MINIMUM WAGES AND EMPLOYMENT EFFECTS ON YOUNG WORKERS."

A SUBMINIMUM WAGE WILL NOT CREATE JOBS. IT WILL ONLY DISPLACE OLDER WORKERS WHO NEED DECENT WAGES TO SUPPORT THEIR FAMILIES EVEN MORE THAN

YOUNG WORKERS. WITH THE LIMITED NUMBER OF JOBS THAT EXIST, THIS TRADE-OFF BECOMES EVIDENT. ANY INTELLIGENT BUSINESS MAN WOULD LIKE AN 18 YEAR OLD AT A LOW WAGE OVER A 23 YEAR OLD AT A DECENT HIGHER WAGE. WHY PAY A MAN A DOLLAR WHEN YOU CAN GET THE SAME WORK FOR A DIME? WHILE WE CERTAINLY FAVOR JOBS FOR YOUNG WORKERS, WE DO NOT BELIEVE THAT THESE JOBS SHOULD COME AT THE EXPENSE OF OLDER WORKERS WHO NEED THEM MORE. BY FAR, THE BEST WAY TO REDUCE YOUTH UNEMPLOYMENT IS TO CREATE JOBS FOR ALL WORKERS. THIS BEGINS WITH PASSING AN EQUITABLE AND EQUAL MINIMUM WAGE.

SOCIETY AS A WHOLE WOULD SUFFER WITH A SUBMINIMUM WAGE FOR YOUNG PEOPLE. YOUTH WHO CONTRIBUTE TO THE HOUSEHOLD'S YEARLY INCOME WOULD MOST LIKELY HAVE TO POSTPONE OR FOREGO ANY HIGHER EDUCATION. FULL TIME WORKING STUDENTS WOULD BE EFFECTED IN THE SAME WAY. THEY WOULD BE FORCED TO DROP OUT OF SCHOOL COMPLETELY OR INDEFINITELY POSTPONE THEIR EDUCATION BECAUSE OF SUB-STANDARD WAGES. THEY SIMPLY COULD NOT MAKE ENOUGH TO PAY FOR SCHOOL AND LIVING EXPENSES. THIS PREDICAMENT IS DISCRIMINATION AGAINST YOUNG PEOPLE, ESPECIALLY MINORITIES. AT THE END OF 1976,3 MILLION WORKERS WERE PAID WITHIN 5 CENTS OF THE MINIMUM WAGE, AND BLACK WORKERS REPRESENTED 17% OF THOSE PAID THE BARE MINIMUM WAGE. IT HAS BEEN ESTIMATED THAT ONE FOURTH OF ALL BLACK WORKERS ARE PAID LESS THAN $3.00 AN HOUR. ONE HALF OF ALL BLACK HOUSEHOLDS HAD A TOTAL INCOME IN 1975 OF LESS THAN $7,408. * AS A RESULT OF LOW INCOMES, YOUNG PEOPLE, ESPECIALLY MINORITIES, SUFFER FROM INADEQUATE HEALTH CARE AND HOUSING IN OUR URBAN AREAS. ABOUT THE ONLY TYPE OF EMPLOYMENT AVAILABLE TO YOUNG PEOPLE ARE JOBS IN SMALL RETAIL STORES AND FAST FOOD RESTAURANTS. ANY SUB-STANDARD WAGE WOULD FORCE

* 1977 AMENDMENTS TO THE FAIR LABOR STANDARDS ACT

THESE YOUNG WORKERS BELOW THE OFFICIAL POVERTY LEVEL. THIS EXPLOITATION OF YOUNG PEOPLE AS A WORK FORCE SHOULD NOT BE ALLOWED. ONLY YOU HAVE THE POWER TO MAKE SURE IT DOES NOT OCCUR.

YOUNG PEOPLE SHOULD NOT BE FORCED INTO PROGRAMS SUCH AS WELFARE, FEDERAL, STATE, LOCAL ASSISTANCE PROGRAMS, FOOD STAMPS AND PUBLIC AID AS AN ALTERNATIVE TO FINDING EMPLOYMENT. THESE PROGRAMS ARE USED BY MANY TO SUPPLEMENT INCOMES, AND IN SOME CASES IS THE ONLY SOURCE OF INCOME, BUT YOUNG CAPABLE WORKERS SHOULD NOT EVEN HAVE TO CONSIDER THIS. EMPLOYMENT MUST BE PROVIDED AT A FAIR WAGE ABOVE THE POVERTY LINE.

A STANDARD MINIMUM WAGE WOULD NOT ADD ANYTHING TO THE BUDGET DEFICIT. THE GOVERNMENT WOULD ACTUALLY SAVE MONEY THROUGH INCREASED TAX REVENUE AND FROM REDUCED WELFARE PAYMENTS TO THOSE WITH INSUFFICIENT PAYCHECKS. THIS WAGE WOULD ADD ADDTIONAL PURCHASING POWER AND RESULT IN ADDITIONAL JOBS IN THE PRIVATE SECTOR ECONOMY. THIS ADDTIONAL PRODUCTION WOULD BE MANDATED BY THE ENLARGED DEMANDS FOR GOODS AND SERVICES.

THE PROBLEM OF YOUTH UNEMPLOYMENT, CRIME, POVERTY, WELFARE, AND EDUCATION WILL NOT BE TOTALLY ABSOLVED BY A STANDARD MINIMUM WAGE, BUT I FIRMLY BELIEVE THAT FAIR AND EQUAL WAGE IS A POSITIVE STEP TO RESOLVE THEM. THE 10 MILLION WORKERS, YOUNG AND OLD, COVERED BY MINIMUM WAGE LAW PRESENTLY EARN LESS THAN THE POVERTY LEVEL, AND WITH AN INCREASE IN THEIR WAGES, BILLIONS OF DOLLARS WOULD BE ADDED TO THE ECONOMY. THESE DOLLARS ARE PRODUCTIVE DOLLARS,WHICH WOULD HELP THIS COUNTRY GET BACK ON AN ECONOMICALLY SOUND COURSE.

I CANNOT TELL YOU <u>EXACTLY</u> HOW MANY YOUNG PEOPLE WOULD BE ADVERSELY EFFECTED BE A SUB-MINIMUM WAGE. I DOUBT THAT ANYONE COULD. IT MIGHT BE 500,000 OR 2 MILLION. 500,000 MAY SEEM SMALL TO YOU BUT

I ASSURE YOU THAT IT MEANS A LOT TO THOSE PEOPLE. I STRESS THE POINT THAT THESE ARE PEOPLE. WHAT IS IMPORTANT IS THAT ALL WORKERS BE GIVEN THE BENEFIT OF A FAIR AND EQUAL MINIMUM WAGE THAT GUARANTEES AN ABOVE SUBSISTENCE STANDARD OF LIVING. THIS WOULD PROVIDE SOCIAL EQUITY WITH OTHER WAGE EARNERS AND ECONOMIC STABILITY AS CONSUMERS. IT IS THE DUTY OF THE AMERICAN GOVERNMENT TO PROVIDE THIS PROTECTION FOR ITS CITIZENS WITHOUT REGARD TO RACE, SEX, OR AGE. WE ASK YOU TO VOTE IN FAVOR OF A BILL WHICH WILL:

1. RAISE THE MINIMUM WAGE ABOVE THE POVERTY LEVEL.
2. PROVIDE AN AUTOMATIC INDEX TO KEEP IT THERE.
3. GRADUALLY PHASE DOWN THE TIP-CREDIT ALLOWANCE.
4. NOT INCLUDE ANY SUB-STANDARD WAGE FOR ANY GROUP OF AMERICANS.

THANK YOU

STATEMENT OF ELLEN VOLLINGER, DIRECTOR OF THE ADA YOUTH CAUCUS, BEFORE THE SUBCOMMITTEE ON LABOR OF THE SENATE COMMITTEE ON HUMAN RESOURCES, ON S. 1871, TO AMEND THE MINIMUM WAGE PROVISIONS OF THE FAIR LABOR STANDARDS ACT, ON THURSDAY, AUGUST 4, 1977.

I am grateful for the opportunity to testify in support of the minimum wage bill. Approximately one-third of those earning the minimum wage are under 20. These and other young workers are currently working on a minimum wage level that, even with full time work, results in an annual income below poverty level. Approval of a $2.65 minimum wage will allow both young and old workers greater access to adequate health care, housing and higher education.

I especially urge you to vote against any amendments which would weaken this bill, particularly any amendments that seek to establish a "subminimum" wage for youth. The very people who would supposedly benefit from a wage differential -- America's youth -- reject it as a solution to the problem of youth unemployment. Just last weekend at the National Conference for State Student Associations in Columbia, Missouri, 49 representatives of 26 state student associations and the staffs and boards of the two largest student organizations -- the U.S. National Student Association and the National Student Lobby -- went on record against the establishment of a subminimum wage for youth.

There has been no significant proof that subminimum wages would substantially expand youth employment, and Dr. Allen Fischer's study for the Labor Department indicates that making youth the source of cheap manpower would lead not to the creation of new jobs but to the displacement of adult workers from existing jobs. The members of ADA's Youth Caucus want

jobs, but we want them at a decent wage rate and not at the expense of older workers.

The establishment of a separate wage rate for youth contradicts the concept of equal pay for equal work. Wages in this country should be based on the type of work, rather than on the age of the person doing the job. A subminimum wage for youth would mean less in earnings for employed young people, many of whom head households or substantially supplement a family income, and who, nonetheless, must meet the steady increases in the cost of a basic minimum life. For many young adults and teenagers, the ability to be self-sufficient is critical in the development of a responsible approach to work and employment. If our aim is to provide training and jobs for the nation's young, then let's do that. A subminimum wage for youth will accomplish neither of these ends, and will only severely undermine the labor market.

YOUNG DEMOCRATS OF AMERICA
TESTIMONY BEFORE THE UNITED STATES SENATE
COMMITTEE ON HUMAN RESOURCES
SUBCOMMITTEE ON LABOR

August 4, 1977

I AM KEVIN CALLWOOD REPRESENTING THE YOUNG DEMOCRATS OF AMERICA. MR HOLMAN OUR RECENTLY REELECTED PRESIDENT COULD NOT BE HERE TODAY AND ASKED ME TO PRESENT THE POSITION OF THE Y.D.A. ON THE VERY IMPORTANT QUESTION OF MINIMUM WAGE LEGISLATION.

MINIMUM WAGE LEGISLATION AND SPECIFICALLY SUB-MINIMUM PROVISIONS ARE OF GREAT CONCERN TO THE YOUNG DEMOCRATS. WE ARE AN ORGANIZATION OF OVER 100,000 YOUNG PEOPLE WHO ARE ACTIVELY ENGAGED IN THE POLITICAL PROCESS. LAST WEEK WE HELD OUR NATIONAL CONVENTION IN MIAMI, FLORIDA. AT THIS CONVENTION 1,000 DELEGATES FROM 50 STATES MET TO DISCUSS THE CURRENT ISSUES OF TODAY. AT THE TOP OF THE LIST WAS THE PROPOSED CHANGES IN THE FAIR LABOR STANDARDS ACT EMBODIED IN HR 3744 AND S 1781. BY A RESOUNDING VOTE THIS GROUP OF 1,000 ELECTED REPRESENTATIVES OF YOUNG PEOPLE ALL ACROSS THE COUNTRY PASSED THE FOLLOWING RESOLUTION:

WHEREAS YOUNG PEOPLE ARE A SUBSTANCIAL PORTION OF THOSE WORKERS WHO EARN MINIMUM WAGE; AND

WHEREAS THE FACT IS THAT MANY TEENAGERS SUPPORT THEMSELVES AND SOME ALSO SUPPORT FAMILIES, AND STUDENTS OFTEN MUST WORK TO CONTINUE THEIR EDUCATION;

WE, THE YOUNG DEMOCRATS SUPPORT THE DENT BILL (HR 3744) WHICH WILL INCREASE THE MINIMUM WAGE INITIALLY TO $2.65 AN HOUR.

IN ADDITION, WE ARE OPPOSED TO A YOUTH SUBMINIMUM WAGE. THE "YOUTH UNEMPLOYMENT AND MINIMUM WAGE" BULLETIN #1657 FOUND THAT THE EXISTING ECONOMIC CLIMATE, NOT MINIMUM WAGE INCREASES DICTATE JOB OPPORTUNITIES FOR YOUNG PEOPLE.

THEREFORE SINCE YOUNG PEOPLE AS A RESULT OF THEIR ARTIFICIALLY LOW INCOMES SUFFER FROM INADEQUATE HEALTH CARE, HOUSING AND SKYROCKETING TUITION RATES; WE SUPPORT AN INDEXED $2.65 AN HOUR MINIMUM WAGE FOR ALL WORKING

AMERICANS.*

I BELIEVE THIS MAKES THE FEELING OF 100,000 YOUNG PEOPLE CLEAR. WE ARE IN COMPLETE SUPPORT OF S1781 AND IN STAUNCH OPPOSITION TO ANY SUB-MINIMUM WAGE FOR YOUNG PEOPLE.

Submitted by: Labor Caucus

Resolutions committee: 20 for, 2 against (Florida and North Carolina)

Convention: Passed in a voice vote.

Senator JAVITS. Without objection, the hearings will now be terminated subject to the call of the Chair.

[Whereupon, at 12:05 p.m., the hearing recessed.]

FAIR LABOR STANDARDS AMENDMENTS OF 1977

FRIDAY, AUGUST 5, 1977

U.S. SENATE,
SUBCOMMITTEE ON LABOR,
OF THE COMMITTEE ON HUMAN RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:50 a.m., in room 4232, Dirksen Senate Office Building, Senator Harrison A. Williams, Jr. (chairman) presiding.

Present: Senators Williams and Javits.

The CHAIRMAN. We will come to order, please.

This morning we are holding our sixth and final day of hearings on S. 1871, a bill to amend the Fair Labor Standards Act, increase the minimum wage, to index it, to provide for annual adjustments, and to phase out the tip credit.

We will hear from three witnesses today; Manuel Morales, Jr., the president of the Chamber of Commerce of Puerto Rico; John C. Datt, director of the American Farm Bureau Federation; and Mr. Chauncey L. Denton, the former president and chairman of the National Cotton Council.

Our first witness will be Mr. Morales of the Chamber of Commerce of Puerto Rico. Mr. Morales, would you come before us and before you begin your testimony, let me just say that I have received a letter from Mr. Baltasar Corrada, who is the Representative in the House and Resident Commissioner from Puerto Rico. Mr. Corrada's letter transmits a formal statement of the position of the Commonwealth of Puerto Rico with respect to Federal minimum wages in the Commonwealth. It was announced by Mr. Corrada on behalf of Gov. Carlos Romero Barcelo and for himself.

Mr. Corrada has requested the statement and position be included in the record of these proceedings. We are going to have all of these statements together in the record and we appreciate it. I hope that it was explained, our reason for delaying the hearing this morning. Both Senator Javits and I had to be with the President this morning. It came upon us late enough that we did not have an opportunity to advise you last night.

We are sorry you were inconvenienced in any way and we welcome you.

[The following was submitted for the record:]

98-912 O - 78 - 46

BALTASAR CORRADA
RESIDENT COMMISSIONER, PUERTO RICO

JOAQUÍN A. MÁRQUEZ
ADMINISTRATIVE ASSISTANT

COMMITTEES:
EDUCATION AND LABOR
INTERIOR AND INSULAR AFFAIRS

Congress of the United States
House of Representatives
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P.O. BOX 128
PONCE, PUERTO RICO 00731
AREA CODE: 809-843-0640

August 4, 1977

Honorable Harrison Williams
Chairman
Committee on Human Resources
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Enclosed please find the official position of the Government of Puerto Rico regarding Puerto Rico's inclusion in the proposed amendments to the Fair Labor Standards Act.

The position was formulated by the Governor of Puerto Rico and myself and has been agreed to by labor and by the House Committee on Education and Labor in the bill reported to the House.

I would appreciate it if you could, at an appropriate time, apprise the members of your Committee of our position and I hope that the Committee will be agreeable to accepting it. I would also request that our official position be included in the record of the Committee's proceedings.

Thanking you for your cooperation on this matter, I am

Sincerely,

Baltasar Corrada
Member of Congress

cc: Honorable Jacob Javits

BALTASAR CORRADA
RESIDENT COMMISSIONER, PUERTO RICO

JOAQUÍN A. MÁRQUEZ
ADMINISTRATIVE ASSISTANT

COMMITTEES:
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POSITION OF THE COMMONWEALTH OF PUERTO RICO'S GOVERNMENT WITH RESPECT TO FEDERAL MINIMUM WAGES IN PUERTO RICO AS ANNOUNCED BY RESIDENT COMMISSIONER BALTASAR CORRADA DEL RIO, ON BEHALF OF GOVERNOR CARLOS ROMERO-BARCELO AND FOR HIMSELF

I would like to announce at this time the formula we are proposing for Puerto Rico in the event of an increase in the federal minimum wage for the United States mainland on the basis of $2.65, equivalent to 51% of the average hourly wage for manufacturing effective January 1, 1978, and subsequent annual increases in the federal minimum wage for the mainland on the basis of an indexing concept of 52% of the average hourly wage for manufacturing on January 1, 1979, and 53% on January 1, 1980 and subsequent years.

Based on the above proposed increases in the federal minimum wage for the U.S. mainland, Governor Carlos Romero-Barceló and I propose the following with respect to increases in the federal minimum wage for Puerto Rico:

1. Employees covered by the Fair Labor Standards Act who are earning $2.30 or more per hour on December 31, 1977, having therefore achieved parity with the now existing federal minimum wage of $2.30, will remain at parity with the new federal minimum wage in the U.S.

Mainland to become effective on January 1, 1978, and subsequently.

2. Employees who are earning between $2.00 and $2.29 per hour as of December 31, 1977, will have an annual increase of 25 cents on January 1, 1978.

3. Employees who are earning between $2.00 and $2.29 per hour as of December 31, 1977, will have an annual increase of 30 cents on January 1, 1979, and of 30 cents on January 1st of every subsequent year until they reach parity with the federal minimum wage applicable in the U.S. mainland.

4. Employees who are earning $1.99 or less per hour on December 31, 1977, will have an annual increase of 20 cents on January 1, 1978.

5. Employees who are earning $1.99 or less per hour on December 31, 1977, will have an annual increase of 25 cents on January 1, 1979, and will increase 25 cents on every subsequent January 1st until they reach the rate of $2.30 per hour, and subsequently will increase 30 cents per year every January 1st until they attain parity with the federal minimum wage in the U.S. mainland.

6. There will be industry review committees in Puerto Rico to review minimum wages in Puerto Rico every two years. These committees will be authorized to provide for higher annual increases in the minimum

wage for Puerto Rico than the 20, 25 or 30 cents increases herein above referred in the case of employees that have not reached parity with the U.S. mainland federal minimum wage, but may not decrease the amount of the automatic annual increases referred to above.

July 18, 1977

The CHAIRMAN. Mr. Morales you may proceed.

STATEMENT OF MANUAL MORALES, JR., PRESIDENT, CHAMBER OF COMMERCE OF PUERTO RICO, ACCOMPANIED BY HUBERT C. BARTON, JR., SPECIAL ECONOMIC CONSULTANT TO CCPR, DR. NELSON FAMADAS, MEMBER, CCPR BOARD OF ECONOMIC ADVISERS, HECTOR ALEJANDRO, STAFF ECONOMIST, CCPR, AND RAFAEL RIVERA-RODRIGUEZ, EXECUTIVE VICE PRESIDENT, CCPR

Mr. MORALES. Thank you, sir.

My name is Manuel Morales, Jr. I am president of the Chamber of Commerce of Puerto Rico. Our association has 1,300 members and 32 affiliated associations that represent the whole spectrum of private enterprise in Puerto Rico.

For the record, accompanying me today are Mr. Hector Alejandro, on my right, staff economist of the chamber; Mr. Hubert Barton, special counsel on minimum wage to the chamber; Dr. Nelson Famadas, who is an economist in the chamber's board of economic advisers; and Mr. Rafael Rivera, who is a lawyer and is the executive vice president of the chamber.

It has never made sense to apply the same minimum wage in Puerto Rico that is mandatory within the United States. This was recognized by Congress 2 years after enactment of the Fair Labor Standards Act of 1938 when provisions for differential rates were legislated for Puerto Rico. Parity may make sense some time in the future.

What we can hope to do now is to seek workable relationships between the minimum wage in the United States and the minimum wages in Puerto Rico that will continue to make sense until the time comes when the two rates can be made identical.

The Fair Labor Standards Act was not intended to make the United States internationally competitive or to create jobs. Its purpose was an approximate kind of social justice. When the act was passed nearly 40 years ago, the statutory minimum was set at 25 cents an hour, to go to 30 cents the following year. It seems to us no accident that the legislated minimum for 1939 was one-half of the 60-cent average level of earnings that prevailed when the bill was being debated in Congress.

The current bill which, for the first time, formally links the minimum wage to average straight-time earnings of manufacturing production workers, seems to us to embody a social and humanistic principle to which we can all subscribe. Nobody should be paid less than half the wage that most of his peers are being paid.

Forty years of experience with the Fair Labor Standards Act also demonstrates that its social purpose, which we all endorse, is economically viable. By sacrificing a tolerable amount in total income from international trade and of employment in marginal jobs, the incomes of the lowest paid workers have been increased along with those of the rest of the working population. There has been no more of the gross exploitation of the wage earning population that the act was designed to abolish.

By formally linking the minimum wage to average earnings, it seems to us that the Congress is doing more than merely ratifying the long-continued relationship between the two. It is emphasizing the social and humanistic purpose of the act and, hopefully, institutionalizing a relationship that will diminish the periodic jockeying of

management, labor, and the Congress that has produced the sporadic increases in the minimums that have been legislated in the past.

For nearly 40 years these revisions of the act have been a divisive issue that has harmed labor-management relations and demanded an inordinate amount of the time, energy, and concern of the Congress. The linkage or indexing principle of the proposed legislation should eliminate much of this conflict and waste.

Moreover, with straight-time earnings of production workers in even the lowest-wage U.S. industries now averaging over $3.50 an hour, we believe that the wage increases implicit in the $2.65 minimum will have only a minor affect on total payroll and no significant inflationary impact.

However, its adverse effect on the employment of young people, especially those in the Hispanic and black minorities, has been demonstrated by recent studies of Brimmer & Co., Gramlich, and others. We join with those who advocate a youth differential in the Federal minimum wage or, preferably, Government subsidy of wage payments to these disadvantaged groups.

We also urge the establishment of federally supported programs for the creation of meaningful productive jobs, especially permanent jobs in the private sector. An abundant production of real goods and services can support high and rising wages and, at the same time, help to check inflation.

Mr. Chairman, while we endorse the indexing provisions of the present bill and subscribe to the principle of parity for Puerto Rico the moment it is economically feasible, we do not concur with the provisions for Puerto Rico being proposed for January 1, 1978. Their impact on many sectors of agriculture, manufacturing, and commerce and in some service industries would be severe and the resulting loss of jobs would be exceptionally damaging under the present circumstances of the island's economy.

The Labor Department data shown on the accompanying chart indicates part of our problem. After a brief and partial recovery in the first half of last year, total employment has stagnated at a level considerably below the plateau reached in 1973–74. Among the basic industries, both agriculture and manufacturing are still below previous levels and employment in construction is only about half what it was 4 years ago. Puerto Rico has not shared in the strong economic recovery that has pushed employment in the States over the 90 million mark.

Possibly even more serious—with a stagnant economy at a depressed level of employment, our population has been been increasing with unprecedented rapidity. After years of outward migration from the Island, the flow reversed itself in 1972. In 6 short years, the population has jumped by over 500,000 persons. About half the increase has been "natural" population growth. The other half, largely people of working age, are returned migrants and immigrants from foreign countries, mainly Cuba and the Dominican Republic.

Job losses and this population explosion have pushed unemployment in Puerto Rico up to the highest level ever recorded. In June, 22 percent of the labor force was out of work. There were 213,000 people actively looking for jobs—a number considerably exceeding that of the

remaining job holders in agriculture and manufacturing. Recent surveys by our Department of Labor show that many more people would have been looking for work if they thought they could find it.

Mr. Chairman, I must somehow try to convey to you the gross difference between the strong recovery here in the States and the continued depressed conditions in Puerto Rico. Perhaps I can best express it by a single comparison. Out of every hundred persons in Puerto Rico, only 23 have jobs. In the States, 42 out of every 100 are at work and they have much more productive jobs. We are deeply concerned that an abrupt increase in minimum wages will further aggravate our precarious economic condition.

The focal point of our concern is that the proposed increases in minimum wages in Puerto Rico will trigger further job losses in the six groups of manufacturing industries that are listed at the top of the accompanying table.

In 1968, average hourly earnings in these six industry groups were well below the $1.60 statutory minimum which was then in force.

The CHAIRMAN. I think we will have to include that table in the record that shows the other industries.

Mr. MORALES. Yes, sir.

By October of 1976, earnings in all but the leather group had been pushed above the $2.30 minimum which then prevailed. In the process, over 17,000 jobs were lost. For us, this has been a major calamity.

In the higher wage industries, earnings have been generally well above the minimum. Wage rates have increased even more rapidly than in the six lower wage industry groups—but these increases have been largely determined by market forces and a substantial employment gain was registered during the 8-year period.

Our concern is focused on the 53,000 jobs still remaining in the six low-wage industry groups shown at the top of the table and, especially on textiles, apparel and leather. These industry groups, along with a few other industries like rubber footwear included in the totals for higher wage industry groups, are caught in a vise. One jaw of the vise is persistent escalation of the minimum wages that largely determine their labor costs. The other jaw is foreign competition.

In 1968, Puerto Rico still supplied 30 percent of total U.S. apparel imports compared with 25 percent coming from Hong Kong, Taiwan, and Korea. Six years later, Puerto Rico's share had been about cut in half to 16 percent, while the share of the three low-wage, Far Eastern countries had more than doubled to 51 percent.

The Commonwealth Government has already undertaken measures to alleviate the cost squeeze on some of these low-wage industries. Tax exemption periods have been extended for 5 additional years for the long-established textile and apparel plants whose grants were about to expire. Large cash grants have also been made to cigar manufacturers conditioned on their maintaining their operations in Puerto Rico. In spite of these strenuous measures by the Commonwealth, employment has continued to decline.

Existing provisions of the Fair Labor Standards Act have undoubtedly contributed to the stagnation of employment that has dominated the economic scene in Puerto Rico for the past 12 months. In the States, there have been few increases in minimum wages since 1975, and none outside agriculture since last December. In Puerto Rico, however, auto-

matic increases and wage orders have been continuous for industry below the statutory minimum. Their incidence has been especially heavy within the six manufacturing groups shown in the table.

This year, for example, there have been minimum wage increases of 15 to 18 cents an hour in the tobacco group, 20 to 30 cents in textiles, 15 to 21 cents in apparel, 15 cents in leather, 20 cents in furniture and 25 to 40 cents in plastics. This is the record only to the first of May and additional industry committee hearings are already scheduled for industries which have not yet reached parity in spite of such sizable recent increases.

Moreover, between October 1976—the Census data shown in the table—and April—the most recent Labor Department data available—1,000 more jobs have been lost in these low-wage industry groups. Still more recently, the Economic Development Administration—Fomento—has reported that, during May and June, factory openings accounted for 82 new jobs while 718 jobs were lost in plants that closed.

Admittedly, our concern for the future of these six low-wage industry groups would be less if there were other job opportunities opening up for the workers who are losing their jobs. As it is, the continued stagnation of the economy and the influx of job seekers from outside the island makes the retention of existing jobs a critical matter. We believe that the Commonwealth Government, we hope with financial support from the U.S. Economic Development Administration, must undertake a selective wage subsidy program, in addition to other measures being used to retain these factory jobs. We also hope that Federal employment programs will materialize to create new jobs in the private sector.

In the meantime, we urge that this committee give full consideration to deferring until January 1, 1979, the applicability of the $2.65 minimum wage to Puerto Rico.

That is our formal statement, Mr. Chairman. Thank you very much.

The CHAIRMAN. It is an excellent statement. I read it carefully last night and I listened to you this morning. I applaud it and appreciate it.

I wonder about the suggestion of the postponement of the January 1, 1978 increase to $2.65 for those who are at $2.30. You do recommend that. What is you recommendation on that? I wasn't quite clear on that. For those who are not at $2.30 now, the House bill has a schedule for them and I wonder have you an opinion on the effectiveness and how you would have increases reach those who are under $2.30 right now?

Mr. MORALES. First of all, when we ask that it be postponed until January 1, 1979, we are requesting that minimum wage, any increase at any level be postponed until January 1, 1979.

The CHAIRMAN. Across the board.

Mr. MORALES. Across the board. The proposal you mentioned, the House proposal, industries under the $2 minimum by the wage industry committee are the ones that have recently had those 15-to 20-cent increases this May. The House bill provides for a 25-cent increase; a 20-cent increase the first year. That, coming on top of a 15- to 20-cent increases this past May which then, in a short period of 7 months would increase 40 cents per hour on these low-wage industries.

The CHAIRMAN. Are those set rates on a percentage basis or cents per hour basis?

Mr. MORALES. Cents per hour. It would be a 35- to 40-cent increase in a period of 7 months, per hour. That is quite strong. That is why we are asking that the—we are not against reaching for parity. We just want to accomodate the industry committees. Another such committee will be meeting next Monday.

The CHAIRMAN. What industry is meeting?

Mr. MORALES. Committee 141–A. I think it is the leather gloves and mitts industry.

The CHAIRMAN. Do you know when they last recommended or granted an increase?

Mr. BARTON. No; but they have an automatic increase.

The CHAIRMAN. I see. The leather people who are now in committee meeting?

Mr. BARTON. Yes.

The CHAIRMAN. Obviously we recognize the situation because the law reflects that. This will be, of course, on our minds as we deal with this in the conference with the House. We are a month and a half away from, as we hope to be, conference with the House on this. Obviously, we have more work to do here because they are already to go to the floor when we resume post-Labor Day.

Is there anything further?

Mr. MORALES. We would like to hand in for the record a report recently prepared by Arthur D. Little & Co. for the Commonwealth Government in which they are very specific in saying that Puerto Rico has lost its low-wage area category and that right now, the main incentive for manufacturing operations establishing in Puerto Rico is the tax exemption provisions because we no longer are a low-wage area.

The Dominican Republic has an average wage earnings of about 40 cents and that is right next door. Our textile industry has been affected seriously. These are the six industries that will mostly be affected if the minimum goes into effect next January 1.

The CHAIRMAN. We will have that for our record and we will certainly review the Arthur Little report.

[The document referred to follows.]

EVALUATION OF THE ROLE OF INCENTIVES IN INDUSTRIAL DEVELOPMENT IN PUERTO RICO AND SIX SOUTHERN STATES

FINAL REPORT TO PRIDCO

February 1977

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I

INTRODUCTION

In recent years the economy of Puerto Rico has been experiencing severe stress and strains for reasons largely beyond the Commonwealth's control. Official unemployment statistics reached a level in excess of 22% in 1976. At the same time, increases in the prices of raw materials, commodities, fuels and consumer goods, most of which are imported, placed heavy demands on available funds. Increased federal transfer payments helped pay for some of the increased costs of imports. However, if Puerto Rico is to maintain or improve the standard of living of its people, ways must be found to increase the Commonwealth's export income (from the sale of goods and the provision of services to non-residents) and, to the extent possible, reduce its dependence on outside sources of goods and materials. A major non-manufacturing source of employment has been tourism.

Income from tourism has been, and will undoubtedly continue to be, an important source of funds for Puerto Rico. To expand tourism will require a substantial investment of funds and will take time. Tourism also is seasonal in nature which is reflected in varying levels of employment and income flows. However, it is one of the few services that provides export income through its use by non-residents, and it is a field in which Puerto Rico has natural resources. PRIDCO thru its ownership of tourist and convention facilities can help boost this industry.

We also believe that PRIDCO should do its best to encourage the development of local industry to supply local markets and thereby reduce Puerto Rico's dependence on imported products. This will take time and will be limited by the cost and availability of raw materials,

by market considerations (is the market large enough to support an economic sized production facility?), and by the available technology.

It is important to understand what has contributed to the economic growth of Puerto Rico in the past. Historically, the greatest growth in employment and in the level of export income in Puerto Rico has come from the establishment of subsidiaries of U.S. manufacturing concerns which have mainly produced goods for sale in mainland U.S. markets. Following some two decades of substantial growth in the number of such firms and in their employment of workers, factory employment declined between 1974 and 1975.

A major contributing factor to the decline in factory employment in Puerto Rico was a business recession in the United States. Puerto Rico's ability to compete for new plants has been adversely affected by the effects of inflation on the costs of raw materials, energy and transportation and by a reduction in, or loss of, a long time advantage in labor costs.

At the same time, various states in the U.S. (particularly in the so-called sun-belt) have expanded and improved their efforts to attract new plants.

Puerto Rico continues to have the unique ability to offer industry both duty-free access to U.S. markets and freedom from federal corporate income taxes (although on a different basis than in the periods prior to October 1976).

The purpose of this study was to first assess the industrial promotion efforts of six of the most successful Southern States (Alabama, Arkansas, Florida, Mississippi, North Carolina and South Carolina), the incentives offered, and how the efforts and incentives influenced the location decisions of various companies.

For comparative purposes we also included wage, employment, tax and other information about three States (Massachusetts, Michigan and New York) which have lost manufacturing jobs during the past several years. These States are at a considerable disadvantage on several counts. Taxes, welfare costs, labor costs, and power costs are among the most important reasons.

The next step involved translating the information and findings into recommendations for incentives and strategies designed to improve Puerto Rico's ability to compete for new industries.

II

FINDINGS AND RECOMMENDATIONS

Several important findings were derived from our interviews with companies that were located in one or more of the Southern States on which our study focused--Alabama, Arkansas, Florida, Mississippi, North Carolina and South Carolina--or in Puerto Rico. These put the role and importance of incentives in locational decisions in a different perspective, particularly as between Puerto Rico and the Southern States.

It is basic to Puerto Rico's industrial development strategy to recognize that incentives such as freedom from income taxes, help with front-end costs, training programs, etc. are of critical importance in the effort to attract industry. This differs from the South when the incentives offered industry by the various states as part of their promotional programs are less important to locational decisions. The monetary value of the incentives which are, and can be, offered are relatively less important since the states, unlike Puerto Rico, cannot grant freedom from federal corporate income taxes to the companies. Also, the amount of industrial revenue bonds that can be issued for the benefit of a new plant is limited in amount ($5 million maximum), and since this usually is a small amount relative to the overall cost of a new plant, this often is not a major incentive.

What apparently has attracted industry to the Southern States in question is easy access to markets, good transportation systems, availability of raw materials, low cost fuel and electric power, a relatively low cost labor supply, lower state and local taxes than in Northern and middle Western States and a favorable business climate.

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For example, the larger companies interviewed in regard to the establishment of plants in the South generally have plants at various locations in the U.S. A number of such companies decided to expand in the South irrespective of specific incentives offered by any of the states in question. That is, a basic decision to locate in the South had already been made before the question of "where" was explored. Contributing to the decision to locate in the South are such factors as high taxes, labor problems, anti-business attitudes, and the adoption or embracing of a welfare state philosophy by state and local governments in older industrialized states. Conversely, the Southern States in question are seen as being pro-business, anti-union (a number of Southern States have "right to work" laws), having lower state and local taxes on business, and being dedicated to the free enterprise system. The fact that industrial development in the South and rising personal income has created and expanded markets for industry, combined with the clear message that industry was wanted and welcome combined to provide a favorable condition for industrial development promotion in a number of the Southern States.

The selection of which Southern State in which to locate is determined by locational studies, incentives offered, how well state and local promotional personnel respond to and handle inquiries, and the preferences of the management of the companies in question. Actually, as will be shown in the body of this report, similar incentives are offered by the states included in the survey and each of the states appear to have professionally managed and well organized industrial development promotion programs. The selection of the state in which to locate seems to rest on a mixture of economic comparisons (particularly for raw materials, markets, transportation and distribution facilities, and labor supply) and subjective judgments or preferences in respect to business climate and living conditions.

The positive factors for the Southern States are mainly negative factors for Puerto Rico. For example, markets are further away from Puerto Rico. Raw materials usually must be imported and bear the cost of transportation. Transportation and distribution costs are higher and service usually is slower. Energy costs are higher. The distances involved and the need to ship equipment to Puerto Rico makes start-up costs high. Finally, for some companies it seems a bigger and more difficult decision to make to establish a plant in Puerto Rico than in another state on the mainland. In any event, companies with no direct experience with Puerto Rico are unlikely to be "pre-sold" regarding a Puerto Rican location and must be provided with strong incentives and convinced to locate there.

Companies interviewed who have operations of long standing in Puerto Rico generally gave as the reasons for locating there freedom from federal corporate income taxes and labor cost advantages, with several mentioning "Operation Bootstrap" as a reason. Companies who have located in Puerto Rico more recently emphasize freedom from taxes as the main reason they had done so. Interviewees also felt they had been treated well and helped by Fomento and PRIDCO, and many of them leased buildings from PRIDCO.

Puerto Rico is no longer considered to have <u>really</u> low wages, and industries seeking labor at very low rates are going to Taiwan, South Korea and Santo Domingo. Historically, low wage rates in Puerto Rico helped to offset other costs which were higher in Puerto Rico than in the U.S. However, as minimum wages in Puerto Rico are increased and the difference with U.S. minimum wages is diminished, this advantage is disappearing. Parity of minimum wages in Puerto Rico and the mainland will, in many cases, put companies in Puerto Rico at a substantial cost disadvantage because of higher raw material costs, transportation costs, energy costs, etc.

There is no question that for a company with good profits, freedom from corporate income taxes is a very strong incentive. For example, a number of the companies we interviewed had accumulated many millions of dollars of tax-free earnings. By comparison, the monetary value of the incentives available in the various Southern States is quite modest. Actually, the same kinds of incentives offered in the Southern States either are, or can be made available in Puerto Rico, where their value to a company is greater because with freedom from income taxes a company can realize the full value of the benefits. The problem for Puerto Rico is operating cost disadvantages and the effect of such higher costs on profitability and on location decisions.

As mentioned earlier, business tends to go where it believes it is welcome and wanted. In a recent survey by the Fantus Company, the states included in this study ranked as follows with respect to "business climate" in a 48 mainland state comparison: Alabama (2), South Carolina (5), North Carolina (6), Florida (7), Arkansas (8), and Mississippi (12).[1] They clearly are recognized as welcoming industry, which makes promotion of industrial development much easier. If Puerto Rico's industrial development efforts are to meet with success it must maintain a consistent and friendly position in respect to industry throughout and at all levels of government. We believe frequent changes in legislation affecting business and removing or reducing benefits, or threatening to do so, would doom industry promotion efforts to failure.

This is a critical period in the development of the Puerto Rican economy. We believe that expanded industrial development is of vital importance to the strengthening of the island's economy. We believe that Puerto Rico's industrial development should include the following important elements:

Puerto Rico should take the most advantage it can from its unique, and highly important, ability to grant companies freedom from federal

1) Chemical Week, Nov. 10, 1976.

corporate income taxes and, since October 1976, the ability of companies to repatriate their tax-free earnings to the mainland on a current basis without penalty. The so-called "toll gate" tax has complicated the situation for existing companies. It has discouraged repatriation of funds, resulted in a surplus of funds for approved investments in Puerto Rico, and, if it was intended to produce tax revenues in substantial amounts, has not done so. In our opinion, the toll gate tax not only discourages further expansion in Puerto Rico by various existing companies but reduces the attractiveness of a Puerto Rican location for concerns not presently represented there. The combination of freedom from taxes and the right to repatriate earnings at will without cost is a powerful incentive. Having to pay to repatriate earnings weakens the incentive and introduces uncertainty regarding future changes in the "toll" charged.

In an earlier report entitled New Policies and Programs For PRIDCO,[2] we recommended that legislation be amended "to permit industrial concerns to substitute the purchase of an equivalent amount of Puerto Rican bonds (a special issue) for the toll gate tax. In addition to solving some tax problems for the companies involved, and permitting funds to be repatriated when desired, funds received from the sale of bonds could be used to implement programs that might otherwise be delayed by lack of funds." We reiterate the recommendation. We believe the recommended charge would greatly improve the attractiveness of investing in industrial plants in Puerto Rico by existing and new companies and, would provide funds needed to strengthen industrial promotion efforts.

In particular, capital so obtained could be used to fund an industrial development bank and a loan guaranty fund (which were recommended in the report New Policies and Programs For PRIDCO). The operations of a development bank and a loan guaranty fund would permit Puerto Rico to match or exceed state and local use of tax-free industrial revenue bonds.

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[2] A.D. Little, Inc., New Policies and Programs for PRIDCO, Nov. 1976.

Because Puerto Rico often is at a disadvantage with the Southern States in respect to raw material costs, transportation costs, and energy costs it is important for it to be competitive in other cost factors and to at least match the incentives offered industries locating in the south.

One incentive mentioned frequently and favorably by interviewees was the assistance provided by the states in training workers. In the case of Puerto Rico we believe this should continue to include not only training of workers, but also sponsorship of programs for training technical, supervisory and middle management personnel. The programs should be continually upgraded to industries' needs. Improving productivity of Puerto Rico's work force will improve Puerto Rico's competitive position. Also, while we recognize there are many issues involved, we believe it would be to Puerto Rico's advantage to seek changes in legislation that would permit it to maintain a differential in minimum wages with the mainland U.S. (As discussed earlier, Puerto Rico historically had a labor cost advantage which was used to offset other cost disadvantages). We believe maintaining a differential in minimum wages is to be greatly preferred to subsidizing wages of factory labor. Administering a system of wage subsidies is complex and costly, and is likely to have unfortunate side-effects on worker productivity.

PRIDCO's industrial real estate operations should continue to provide companies with readily available space at competitive costs. A number of companies have, in the past, built their own buildings and undoubtedly some will do so in the future. Whether property used by industries qualifying for tax-free status is provided by PRIDCO, the company, or a third party investor, it should not only be free from income taxes but enjoy the same state and local tax benefits offered as incentives for locating in the Southern States.

Finally, in those cases where a company will incur substantially larger start-up costs in locating in Puerto Rico as compared to competing sites on the mainland, we believe Puerto Rico should reimburse the company for the cost differences. Such front-end payments will enable companies to more quickly reach a break-even position and obtain the benefits of a tax-free status.

Our analysis of the industrial development programs indicated that the cost to the states of their programs was relatively small. Their out-of-pocket costs largely consisted of advertising costs, costs of staff personnel of the development agencies, the cost of training programs, and in a number of instances, the cost of improving highway access to a plant site (sometimes using federal funds). Tax breaks involve revenue that did not exist in the past. No costs are involved in giving up something you do not have. The use of tax-free industrial revenue bonds involves little or no cost to state and local government. It results in more favorable interest rates for the company in question, and less federal income taxes paid by investors. State revenue bonds also have been used in various states for specific industrial development purposes, with the objective of the developments generating revenues to pay off the bonds.

In the interest of encouraging new industry and expansion of existing industry, there are provisions for exemptions of property taxes in some instances. Certain industries may be exempt from county and city tax levies, except taxes levied for county school and school district, for a period of years. Other industries occupying plants financed by industrial revenue bonds are exempt from ad valorem taxes as long as the state holds title to the plant. Some companies prefer to lease, even when a bond issue is redeemed, because they can avoid the ad valorem tax. The decision is influenced by the consideration of the alternatives in terms of which makes the best economic sense. Typically, property used or, if under construction, will be used to reduce air

or water pollution, receives exemption from taxation under the property tax laws.

Under the program described above, Puerto Rico will have costs for advertising, for paying personnel involved in its economic development programs, for sponsoring training programs, and for its payments for front-end costs. There also will be interim costs for PRIDCO real estate operations, but the implementation of new policies should, over a period of several years, put PRIDCO on a self-sustaining basis.

The operations of the proposed industrial development bank and the loan guaranty fund should also be on a self-sustaining basis. If initial funding comes from a bond issue used as a substitute for a toll gate tax, requests for legislative appropriations can be avoided for those activities. Otherwise, appropriations will be needed and the build-up of banking or loan guaranty operations obviously will be delayed and dependent on the rate at which funds can be made available. As is the case for the states, tax breaks, including the freedom from corporate income taxes, do not involve present or future costs when they apply to industries that would not otherwise locate in Puerto Rico (again, there is no cost in giving up something you do not have anyway).

While Puerto Rico faces formidable competition from states like the ones included in this study, it has the great asset of having access to the U.S. market tariff-free and being able to offer freedom from federal corporate income tax. Also, by comparison with some of the older industrialized states which developed early (Northern and Northeastern states), there are less cost disadvantages and more clear cut advantages in a Puerto Rican location. It seems likely that one of the long-term results of the energy shortage in the winter of 1976-1977 will be an increase in power and fuel costs in the U.S. which in the long run will make them more comparable to such costs in Puerto Rico.

Indeed, the winter and the problems it has posed for many industries should make a warm weather plant location relatively more attractive. This assumes that the business climate in Puerto Rico also is favorable.

As stated earlier, the specific incentives offered industry by the states covered in this study are of less importance to industry location decisions than are the states' advantages in respect to market considerations, costs of raw materials, good transportation and distribution facilities, labor cost and availability, availability and cost of fuel and power (to date) and a favorable attitude towards business (reflected in the tax structures of the states).

As far as that goes, many other states in the U.S. offer approximately the same kinds of incentives to industry offered by the six states in question. It is clear that the companies' primary locational decisions are largely influenced by factors other than the incentives offered. Specific incentives become factors in deciding among several possible locations in these states, and are primary only when deciding about the exact location of the plant.

Puerto Rico must offer more than an equivalent package of incentives. The recommendations of this study are designed to provide industry with sound reasons for locating plants in Puerto Rico, the most important of which are freedom from corporate income taxes and a viable capability of repatriating earnings.

III

THE LOCATION DECISION

A. Interviews with State Spokesmen

We spoke with representatives of six Southeastern States (Alabama, Arkansas, Florida, Mississippi, North and South Carolina). They were asked to define what they thought were the most important incentives or factors that influenced the decision of industry to locate in their State. These representatives said:

Alabama - Companies pick a location because it will give them the best results on the bottom line of their profit and loss statements. Alabama's primary incentives are: forgiveness of ad valorem tax if an industry was financed by industrial revenue bonds, no inventory tax, no tax on raw materials, no situs taxes, and Alabama's Industrial Training Program. Alabama cities own and lease space in industrial parks. The State feels it provides fast matching service. Power rates and transportation also attract investors.

Arkansas - They have a good work force, have natural gas sufficient for process industries, and low labor costs. When Puerto Rico's labor costs were low, Arkansas lost jobs to Puerto Rico, but its representative said that this now happens less frequently. Arkansas feels its training program is a valuable incentive and is patterned after South Carolina. It offers site location assistance. It has a free port law. Arkansas municipalities offer buildings for sale or lease.

Florida - Feels its good supply of non-union workers is an important incentive, and that an ample supply and good vocational training assure a high quality labor force. Florida has expanded its industrial development staff. The State has no personal income tax. It has avoided special tax incentives to new business, and instead has chosen to offer what it terms a fair distribution of the tax burden to both new and existing business in the State.

Mississippi - Provides a wide range of incentives and has recently attracted large businesses. These plants, overall, locate in Mississippi because of the combination of financial assistance, tax exemptions, excellent transportation, adequate power and a large labor force, and low labor costs. They have an access road program, try to upgrade sites and make possible the purchase of buildings with tax avoidance. The State wants industry, actively supports a good business climate and has attracted almost all major industry groups in Mississippi.

North Carolina - Has been very successful in attracting industry because it helps industry to meet regulations. The industrial development people work with environmentalists and others to help define a program by which an industry can comply. They have a Secondary Road Officer, and try to improve roads which will help attract industry. It is not a giveaway State. They have a pro-business attitude and they have convinced the financial institutions in the state to participate in attracting industry. They help locate sites that meet a company's criteria and narrow it down with the clients to one or two. The State development officers put together sales teams of seven people (community leaders) to meet with the prospect and sell the community. Each of the community leaders is an expert on one aspect of what the company needs to know about the community, including its livability (schools, medical facilities, housing). Their advertising stresses fiscal responsibility and a stable business climate.

South Carolina - Says taxes are its biggest incentives. It also has the oldest training program in the country. Considered to be very effective, other states have modelled their training programs after South Carolina. This State has a computerized site-selection system to analyze available sites and communities. South Carolina's Economic Development Board works with smaller communities to organize for business, helps communities form business credit corporations. They have a Support Division that does planning and research, does simple market and tax studies, and provides information. One-third of the State's power is nuclear generated.

The economic development activities and the incentives offered by the above states are sometimes very similar. Only Florida appears to differ from the others to any significant degree. It does not offer tax incentives. In the past, certain counties and cities have promoted their locale individually. This State is now organizing its industrial development thru its development agency to first attract industry to the State and then to work with local groups to locate the plants.

Alabama, Arkansas, Mississippi, North Carolina and South Carolina each offer more expansive training programs than others. Typically, a state development officer's perception of his state's services and incentives matched that of representatives of companies which had recently used the State Development Board's services. We found the officers of companies which have recently located in North Carolina the most willing to discuss their experiences and reasons for selecting a site in that State. Those who had been assisted by that state felt that they had received prompt attention, and that their needs had been met. We also received favorable comments about other State development groups. One company's officer, with several plants in various states in the South said that, in fact, he had found that in the pro-business States of the South, most of the states' development representatives were competent professionals, and were helpful.

Since any state's industrial development activities are intended to result in added manufacturing jobs, we compared the results for the six states. We also interviewed companies who have recently located or expanded operations in the six states and in Puerto Rico. These comments follow as B and C of this Section of this report.

The succcss stories of five of the six states studied are reflected in TABLE 1 . This table was prepared by the Alabama Development Board. Another report provided by Alabama shows the creation of 12,225 new jobs in 1976, with an investment of over $1.6 billion.[3)]

Overall, non-agricultural employment rose in these six States (TABLE 2), as did manufacturing employment. In 1975, manufacturing employment as a percent of employees in non-agricultural establishments was highest North Carolina (36.9%), South Carolina (34.4%), Mississippi (29.7%), Arkansas (28.4%), and Alabama (27.8%). Florida trailed with 12%. Manufacturing employment (1970-1975) grew fastest in Mississippi, Arkansas and North Carolina. Alabama and South Carolina each showed a 1.2% drop in manufacturing employment between 1970 and 1975. Florida's manufacturing employment rose 1.90% in this period.

All six states boast of a favorable labor market and labor costs. Mississippi, North Carolina and South Carolina have average hourly earnings that are comparable to those in Puerto Rico. The six states each have unemployment rates approximately 25% to 50% as high as that of Puerto Rico. (TABLE 3).

Labor laws and the attitude and cost of labor in a locale are of particular interest to labor intensive industries. Companies do not want to locate where there are labor problems or where unions are strong. They want a reliable, intelligent work force that is easy to train. Companies repeatedly backed the claims of the Southeastern States with regard to the quality and availability of the labor force and the business climate.

3) Industry - 1976, New & Expanding, Alabama Development Office.

TABLE 1

SOUTHEASTERN INDUSTRIAL GROWTH
FOR
NEW AND EXPANDING INDUSTRY
1971-1975

Announced Capital Investment and Jobs to be Created
Ranked in Order of Announced Capital Investment*
(Investment in Thousands of Dollars)

1971			1972			1973			1974 **			1975**		
STATE	JOBS	INVESTMENT	STATE	JOBS	INVESTMENT	STATE	JOBS	INVESTMENT	STATE	JOBS	INVESTMENT	STATE	JOBS	INVESTMENT
N. Carolina	25,433	$702,250	ALABAMA	42,878	$838,290	ALABAMA	42,998	$1,652,726	ALABAMA ***	17,836	$2,014,148	ALABAMA	12,864	$1,452,864
Louisiana	7,982	596,398	N. Carolina	26,222	645,694	S. Carolina	15,662	1,229,690	N. Carolina	18,778	872,311	Louisiana	8,094	1,441,780
Georgia	16,667	488,162	Georgia	24,267	593,202	Georgia	24,269	762,147	Georgia	25,026	677,764	N. Carolina	18,590	701,286
S. Carolina	12,272	473,391	S. Carolina	13,449	502,563	N. Carolina	22,172	727,091	S. Carolina	12,654	666,055	Georgia	18,469	555,217
Virginia	14,120	400,000	Mississippi****	18,304	471,596	Tennessee	40,622	626,896	Louisiana	9,965	660,137	S. Carolina	6,020	511,445
ALABAMA	20,920	363,567	Tennessee	28,683	397,669	Mississippi	19,039	517,000	Tennessee	16,707	598,086	Mississippi	12,069	491,042
Tennessee	46,150	330,000	Louisiana	7,360	364,582	Louisiana	8,195	463,208	Mississippi	11,944	565,874	Kentucky	7,174	300,000+
Kentucky	8,356	127,736	Kentucky	12,568	189,026	Kentucky	10,447	349,068	Kentucky	8,908	522,749	Tennessee	11,488	295,609
Mississippi	9,941	51,172	Virginia	(N.A.)	(N.A.)	Virginia	(N.A.)	(N.A.)	Virginia	8,070	103,000+	Virginia	7,190	(N.A.)
Florida	(N.A.)	(N.A.)	Florida	(N.A.)	(N.A.)	Florida	(N.A.)	(N.A.)	Florida	5,383	(N.A.)	Florida	5,945	(N.A.)

*Source: Georgia Institute of Technology, Georgia Development News.

**Source: Survey of each state's Industrial Development Departments.

***This Total does not include Uranium Enrichment Associates. Because of its uniqueness this announced new industry for Houston County is listed separately in this manner. This project was announced July 1, 1974 and it is thought to be the largest non-government financed manufacturing project ever announced in the United States. Project officials reported in late December 1974 that project plans are still progressing satisfactorily. The Alabama 1974 totals with Uranium Enrichment Associates are:

JOBS	INVESTMENT
19,236	$4,764,148

****Investment reduced by $400,000,000 to exclude utilities.

Source: Alabama Industrial Development Office

TABLE 2

NON-AGRICULTURAL AND MANUFACTURING EMPLOYMENT

(In Thousands)

	Population		Employees in Non-Agricultural Establishments		Manufacturing Employment		Percent Change (1970 to 1975) in:		
	1970	1975	1970	1975	1970	1975	Population	Non-Agricultural Employment	Manufacturing Employment
Alabama	3444	3614	1010	1150	324	320	4.9%	13.9%	(1.2%)
Arkansas	1894	2116	534	620	166	176	11.7	16.1	6.0
Florida	6848	8357	2152	2730	322	328	22.0	26.9	1.9
Mississippi	2220	2346	577	667	186	198	5.7	15.6	6.5
No. Carolina	5098	5451	1783	1996	699	737	6.9	12.0	5.4
So. Carolina	2597	2818	824	978	340	336	8.5	18.7	(1.2)
Massachusetts	5689	5828	2243	2328	640	594	2.4	3.4	(7.2)
Michigan	8875	9157	2970	3127	1078	980	3.2	5.3	(9.1)
New York	18237	18120	7174	6791	1769	1407	(.64)	(5.3)	(20.5)

Source: Statistical Abstracts of U.S., 1976 and 1971

Definition: Non-agricultural employment includes manufacturing, wholesale and retail trade, government, services, transportation and public utilities, finance, insurance, real estate, contract construction and mining.

TABLE 3

GROSS EARNINGS OF PRODUCTION WORKERS ON MANUFACTURING PAYROLLS, BY STATE

	Average Hourly Earnings ($/hr)		Unemployment, % of labor force
	Sept 1975	Sept 1976	Sept 1976
Alabama	4.22	4.52	6.4%
Arkansas	3.63	4.06	5.0
Florida	4.11	4.48	9.9
Mississippi	3.59	3.86	5.2
North Carolina	3.57	3.91	6.0
South Carolina	3.66	4.04	5.2
Massachusetts	4.54	4.89	6.5
Michigan	6.29	6.82	9.0
New York	4.96	5.30	8.4

Sources: U.S. Department of Labor, Bureau of Labor Statistics, Employment & Earnings, Nov. 1976.

Some advantages to locating in the South are not under the State's control. The spokesmen for the States said that the availability of power at reasonable costs and good transportation help to attract new industry. Differentials in power costs and transportation costs are part of the location analyses. A review of published data showed that the six had utility rates lower than Puerto Rico, but recent shortages may have changed costs considerably. All six States stressed the fact that the business climate of the South is one of the biggest incentives. The financial institutions, utilities, transportation companies, and others make business feel welcome.

For comparative purposes, we included Massachusetts, Michigan and New York in TABLES 2 and 3. During the period of comparison (1970-1975) these States lost manufacturing employment. New York lost 20.5% of the manufacturing jobs it had in 1970, while Michigan lost 9.1% and Massachusetts lost 7.2%. The average hourly wages in these three states are considerably higher than wages in the Southeast States. New York, Michigan,[4] and Massachusetts are high tax states, for both corporations and individuals, and carry high welfare costs. Property taxes, construction costs, utility costs and other costs considered by companies making decisions to locate new plants are also high, and make these states unattractive to industry.

[4] Michigan changed its corporate income tax laws on January 1, 1976 to help stimulate corporate interest in remaining or locating in Michigan.

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B. Interviews With Companies Operating in the Southeast

Companies which recently located new plants or expanded their operations in one of the six states studied were interviewed to learn what attracted them to the State, their criteria for selecting a location, and the importance of state industrial incentive programs to their final decision. Our interviews sample included small, medium and large companies.

A number of small companies locating in the South, we learned, did not ask for, or received any assistance from a state or municipal development office. Others used the services of the Chamber of Commerce as well as municipal and state development groups to help them locate a plant, but had not ask for, or receive other assistance.

Plants locations in Alabama, Arkansas, Florida, Mississippi, North and South Carolina, are chosen for various reasons that are not related to promotion or incentives. We contacted twenty companies, some of which had officers who were more willing than others to discuss why they located in a particular state.

- A clothing manufacturer had a previous, successful experience in a town in Alabama, knew the area, and the plant available. Labor was a major factor. No other locations were considered, and they did not asked for assistance of any kind.

- A plastic products plant was located in Fort Smith, Arkansas, to be near the company's principal customer. No other locale was considered. They asked the local Chamber of Commerce to assist in finding the exact site, and found them very cooperative.

- A pharmaceutical manufacturer located a plant and plans to locate a research center in Orlando, Florida. They chose

Orlando because the market has a very high growth rate, labor is abundant and reasonable, construction costs were favorable, "right to work" state, power and rates were good, property taxes were good but, overall, no real tax advantages. They were assisted by the Committee of 200, and raised funds by issue of Industrial Development Bonds. They looked only at Southern States because of their proximity to market and good transportation.

- A precision resistors manufacturer, assisted by a municipal development group, went to a North Carolina town because they acquired a company there. They have expanded in that town and have four other southern locations. They once had an assembly plant in Puerto Rico, which has since been substituted for by a plant on the Mexican border.

- A hosiery manufacturer selected a North Carolina site because they already had a distribution center nearby. They chose the town because it was close to the center and had a good labor market. They did not received any assistance. They located their site on their own, and are happy with their choice.

- A chemical manufacturer located a plant in Greenville, South Carolina almost thirty years ago, has recently expanded there, and has never considered moving. They like the business climate and have operated successfully in South Carolina.

- Several small companies in Arkansas would not discuss why they located there. However, a self locking fastener manufacturer was willing to discuss his location decision. They first decided to move to a Southern State due to a customer base there and supply considerations. Arkansas was chosen because it was helpful in finding sites, did a good job of training

labor, and they raised funds by means of Industrial Development Bonds. The labor supply is good. They would never consider leaving the general area.

- An electronics manufacturer chose North Carolina because of its proximity to raw materials and its very attractive stable labor environment, although it was not the cheapest labor. They did receive helpful advice and counsel from the State Development Agency.

- A Mid-West based equipment manufacturer selected a site in the South based on the best possible proposition. They evaluate each site based on its advantages and disadvantages. They quantify the factors and select from those sites that provide the greatest operating advantage. Their basic criterion is that the city must have a population of 50,000 or better. The South is growing, and most cities of this size have new hospitals and schools and offer good residential areas. They recently located a plant in Mississippi.

- One manufacturer said that over the past 10 years the company moved several plants to the South. These states make it attractive, plus they have an available labor force that puts in a full eight hour day. Fuel has been readily available.

- A lingerie manufacturer has several operations in Alabama and Florida. They went there because of good labor availability, lower labor costs, and accessibility to their markets.

The interviews summarized below were with two manufacturers of heavy equipment. These companies' decisions were based on very extensive analysis.

- The facilities manager of a construction equipment manufacturer in North Carolina said the company located several plants in that state because there is considerable construction in the State. Their site selection process was based on freight and materials. They looked at their market center of gravity for in-out freight. They use an internal questionnaire to rank utility costs, taxes, rail sidings, sewage. They said they won't go into an area that does not have a sewage treatment plant.

  Asked to range the most important considerations in a final decision, and why they keep going back to North Carolina, this company's representative said:

  - favorable taxes
  - labor availability
  - training (to limited degree, without strings, i.e. want technical schools and colleges nearby)
  - attitude ("we only want to be where we are really wanted")
  - energy ("new facilities built in the last 4 years do not use natural gas, and we won't locate any plant where they would have to be dependent on natural gas")

  Labor costs are secondary. Revenue bonds are insignificant because $5,000,000 is a small investment to this company. This company has plants in Arkansas and Florida, which they said has unique problems as a peninsula. They will not consider Puerto Rico because of shipping costs.

- A heavy equipment manufacturer in North Carolina said it was attracted to this state because of:

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- A heavy equipment manufacturer in North Carolina said it was attracted to this state because of:

- labor availability
- right-to-work laws
- favorable taxes
- training programs

They chose the South because of its tax laws and lack of welfare problems. The final agreements are made on a local basis. Other factors that weighed heavily in the decision include utility rates, rail availability, and road improvements. They have considered, but have not used, revenue bond opportunities.

This company's representative said the state development people were very gracious, fair and had less bias than other advisors, such as utility companies. They try to do a very good job of matching companies to sites. This company had almost located in Alabama, which offered lower interest rates on borrowed funds and certain tax incentives, but because of the overall attractiveness of North Carolina to its industry, went to North Carolina instead. It set the value of the assistance received at five percent of the cost of the project.

North Carolina has many success stories. Each of the companies interviewed said it had a very pro-business attitude. Its financial community and civic leaders are helpful and practical.

The main reasons for locating in the South appear to be labor availability and cost, accessibility of markets and good transportation, relatively inexpensive power, tax advantages and some financial assistance, and good training programs. Industrial incentives including tax, financial, training and others are only part of the overall decision to locate. Businesses locate where the decision makers believe the overall climate is hospitable and helpful to business.

Once a company has decided it should locate in the South, it may or may not look to the states it will consider for assistance. State representatives' responsiveness to requests, i.e. being first to meet the company's needs, can often provide an advantage to the state. The services provided by the states in matching a company with the right town and acting as a facilitator were highly value by those who used them.

Incentives, such as training and industrial revenue bonds financing, are typically less important to companies than labor availability and cost, and favorable tax treatment and savings.

Several company representatives commented that they avoid states with high labor costs and low labor productivity, and highly unionized states. They also avoid states with high welfare costs and high unemployment. Some corporations interviewed said that although they may have operations in states such as Massachusetts, Michigan or New York, they no longer consider these states for locating new plants. One also pointed out that personal income taxes, particularly for executives facing New York State and New York City taxes are so high, that his company is looking to move its corporate headquarters to Connecticut, as so many other companies have done in the recent past.

C. Interviews With Companies With Puerto Rican Operations

The main reasons or incentives given for having located in Puerto Rico were tax advantages, labor considerations (availability, skills and costs) and liberal incentives (such as low rentals from PRIDCO). However, viewing locational considerations at the present time, a number of companies indicated that the only present advantage to a Puerto Rican location was the tax advantage.

Responses regarding labor cost and productivity ranged from the opinion that labor costs were still lower and productivity about the same in Puerto Rico as in their plants in states on the mainland, to the opinion that there were equivalent labor costs, to one in which labor costs were higher in Puerto Rico and productivity less than or approaching the same level as in the states.

There was general agreement that the outlook for labor costs in Puerto Rico was unfavorable and that combined with higher costs for raw material transportation, energy and fuel costs and the expense of longer supply lines, that future production costs would be higher in Puerto Rico than in the Southern States. In the past, lower labor costs helped to, or more than, offset higher costs for other factors of production. Now the tax advantage is the offsetting factor, and there is doubt that it will be adequate to make up for the other higher costs. Obviously, the higher costs reduce profitability and the savings achieved from the corporate income tax break.

A number of the companies mentioned that the training period for workers in Puerto Rico was longer than in the states. Assistance had been provided to some of the companies in the form of training grants. Several companies recommended that training be undertaken on a continuing basis (for selected skills) and that it be extended to supervisory and middle management levels.

Over a third of the 23 companies interviewed had built their own plants. There was general agreement that construction costs were higher in Puerto Rico than in the South and that it took longer and cost more to get ready to begin operations. This indicated a need for some front-end assistance from Puerto Rico to cover the difference in the cost of getting started there and in alternative locations in the states. (Some of the companies had received assistance from Puerto Rico to cover the cost of moving machinery).

Several of the companies expressed the opinion that it would be very helpful if Puerto Rico could take the lead in constructing waste treatment plants and charge the companies for using them. The alternative is for the companies to provide their own, which has led to delays and to increased capital investments in the plants in question.

Representatives of several large companies believed that relationships between government and the business community had deteriorated in recent years and that the business climate was not as good as in the past. Several companies had very negative opinions regarding the so-called toll gate tax and none of the companies we interviewed that had substantial accumulated tax-free earnings intended to pay the tax and repatriate earning to the mainland. In several other interviews the emphasis was on what the companies might do under the circumstances, rather than on complaints. Two companies with little or no accumulated earnings were prepared to repatriate future earnings and pay the tax. Several others stated that if the tax was repealed they would be prepared to make further investments in Puerto Rico, and that it would greatly improve Puerto Rico's chances of getting other U.S. companies.

A number of the persons interviewed had suggestions regarding Puerto Rico's industrial promotion programs. These included the opinion that Puerto Rico should concentrate on promoting the island to strong, secure companies rather than smaller, relatively insecure companies of

marginal profitability. Favorable criteria for location in Puerto Rico were described as products were a high value added (low material cost) and high margin of selling price over production cost, products with high sales volumes, products where the manufacturing process was well established, and products which would go to the U.S. markets (i.e. not Latin American markets).

Actually, the great majority of the companies interviewed seemed happy about their experiences in Puerto Rico and had found Fomento and PRIDCO personnel helpful and friendly. Despite concerns about the future labor costs, labor in Puerto Rico was considered to be capable of skilled work and for many companies, as productive as in their best efficient mainland plants. The general attitude was one of wanting to be helpful to Puerto Rico, while at the same time recognizing the problems involved and the overwhelming importance of the tax advantage Puerto Rico can offer.

IV

ASSESSING THE INDUSTRIAL PROMOTION ACTIVITIES AND INCENTIVES OFFERED BY SIX SOUTHERN STATES

A. State Development Agencies

1. Funding, Staffing, Promotional Materials

North Carolina, South Carolina, and Mississippi lead the six Southeastern States considered in this study in overall funding their industrial development agencies. Their expenditures are shown in TABLE 4. The advertising budgets of each of the states compared was under $300,000 in 1975. Mississippi said its advertising expenditures rose to $800,000 in 1976.

There was a considerable difference in size of the industrial development staff of two of the six states interviewed. Mississippi has a staff of 60 in its Mississippi Agricultural and Industrial Board in Jackson, has a 2-person office in New Orleans and 4-person group in Brussels. They often work with utility groups which have their own promotional personnel. Florida, which until recently had had only 4 industrial development representatives, now has 13 representatives, each handling about 50 projects, provided us with a considerably smaller amount of information. They too said they have worked with utilities and transportation companies who are also encouraging industry to locate in Florida.

We found North Carolina, Mississippi, Alabama, South Carolina and Arkansas representatives the most communicative about their States' activities to attract business.

TABLE 4

FUNDING OF INDUSTRIAL DEVELOPMENT AGENCIES

(1975)

	Department Total	Industrial Development[1]	Industrial Development Advertising
Alabama	$ 1,655,000	$ 650,000	$ 45,000
Arkansas	1,032,000	602,000	160,000
Florida	1,036,000	781,000	110,000
Mississippi	2,226,872	295,895	252,650[2]
North Carolina	3,378,000	701,000	168,000
South Carolina	2,504,000	983,000	291,000

Source: National Association of State Development Agencies. State Development Expenditure Survey (1975)

1) Excludes Industrial Development Advertising.

2) Budget for 1976 was $800,000.

The industrial development officers were helpful. All, except one, were very open and enthusiastic. The officers of all six states called said their agency had the capability to match industries to available sites or potentially acceptable communities.

The representatives of the state industrial development agencies said that in most instances it was the overall business climate of their state, plus those activities of state industrial development group directed towards particular industries, that best helped to attract new industry or expansion to their state. Once the initial contact is made, and the company's criteria are known, the industrial development agency representatives try to match the criteria of the firm interested in their state as promptly and as closely as possible. They work closely with the companies to meet their needs, and assist them in picking the best location. Once a particular location is selected, the prospective company may be offered special incentives by the state (such as training), by the municipalities (bond issues, tax abatement, access roads), or by utilities or transportation companies that help "swing the deal". Presentations and trips are arranged by the development representatives.

We requested promotional materials describing the programs, taxes, revenue bonds, wages, and special incentives, such as training, offered by the six states. These materials also described transportation; power availability; life style, recreation and educational opportunities found in their state. The brochures and other printed materials were generally well organized and were mailed promptly.

2. Basic Services Provided

The basic services of state development groups include:

1. Telling the state's story by description of the economic, physical, labor, and other characteristics of the state.

2. Determining and analyzing a company's specific needs, to help select the most appropriate communities.

3. Maintaining a file of available buildings, sites, and then matching needs against available locations.

4. Contracting municipalities under consideration, coordinating their presentations or proposals.

5. Initial screening, selection and scheduling of visits to alternative communities and presentations by community officials.

6. Expediting issue of permits, assist applicants by providing guidelines for their meeting pollution control and other standards, regional impact statements, etc.

7. Assisting by alleviating potential problem in the areas of:

   zoning,
   transportation,
   utility contacts,
   local and state taxes,
   offering industrial revenue bond financing,
   screening, selection and hiring of personnel, and
   coordinating technical training

Some states provide a variety of research services related to marketing.

All six States and Puerto Rico offered such special services as programs to promote R & D, State programs to increase exports; State recruiting, and screening of industrial employees; and, five offer state sponsored training programs. Mississippi offers a special service which has been useful to companies locating in that state.

Mississippi has a computerized manpower registry used to turn up talent for prospective employers. The Manpower Development Division, of the Mississippi Research and Development Center, helps meet the need for identifying professional and technical personnel who, given suitable employment opportunity with industrial firms, could be enticed back to Mississippi. This type of register could be very valuable to Puerto Rico, since some of the companies' officers interviewed said that Puerto Rico was unattractive to them as a location, because of the difficulty of obtaining personnel for managerial positions. There are many highly trained individuals of Puerto Rico origin working on the mainland who might be enticed to return to fill special slots, if only they could be identified. There are others on the island who could also benefit by the existence of such a Register.

B. INCENTIVE AVAILABILITY

1. Summary of Incentives Offered and Laws that Influence Companies to Locate in Six Southern States and Puerto Rico

In addition to the special services offered by the Industrial Development Agencies to attract new industry, the States offer tax and legal advantages, financial assistance, and training, and legislation that contributes to a good business climate. These incentives are weighed once the company has determined that it wished to look to the South for its own reasons such as proximity to markets, availability of reasonably priced power and transportation, labor availability and cost, business climate and other such favorable conditions.

Below, we summarize some of the tax exemptions offered by the States. In parts 2, 3, 4 of this section we discuss taxes, financial assistance, and training. We also briefly comment on three states which have lost manufacturing employment in recent years; these are: Massachusetts, Michigan, and New York.

Alabama

Some Corporate Income Tax Exemptions.
Excise Tax Exemptions.

Tax exemption or Moratorium on Land, Capital, Improvements, Equipment or Machinery, Goods in Transit (Freeport), Manufacturers' Inventories, Sales/Use Tax Exemption on New Equipment, and Raw Materials for Manufacturer.

State Right-to-Work Law, Statewide Uniform Property Tax Evaluation Law.

Arkansas

Inventory Tax Exemption on Goods in Transit, Sale/Use Tax Exemption on New Equipment, Tax Exemption on Raw Materials for Manufacturer.

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State Right-to-Work Law, Minimum Wage, Statewide Uniform Property Tax Evaluation Law.

Florida

No Personal Income Tax. Inventory Tax Exemption on Goods in Transit, Manufacturers' Inventories, and Raw Material Inventories (assessed at 25%). Tax Credit for use of Specified State Products (alcoholic beverages made from Florida Products).

State Right-to-Work Law, Statewide Uniform Property Tax Evaluation Law.

Mississippi

Tax Exemptions or Moratorium on Land, Capital Improvements, Equipment and Machinery, Goods in Transit, Manufacturers' Inventories, Sales/Use on New Equipment, Raw Materials for Manufacturer.

Accelerated Depreciation on Industrial Equipment.

State Right-to-Work Law.

North Carolina

Inventory Exemption on Goods in Transit (if in bonded warehouse).

Maximum 1% or $80 tax on New Equipment.

Tax Exemption on Some Raw Materials (agricultural).

State Right-to-Work Law, State Minimum Wage Law, State Fair Employment Practice Code, Uniform Statewide Property Tax Evaluation.

South Carolina

Tax Exemptions or Moratorium on Land or Capital Improvement, Equipment and Machinery, Goods in Transit, Manufacturers' Inventories, Sale/Use of New Equipment, Raw Materials for Manufacturer, and Exemptions to Encourage R & D.

State Right-to-Work Law, Minimum Wage Law, Fair Employment Practice Law, Uniform Statewide Property Tax Evaluation Law.

Puerto Rico

Corporate, Personal and Excise Tax Exemptions.

Tax Exemption or Moratorium on Land and Capital Improvement, Equipment and Machinery, Goods in Transit Inventories, Manufacturers' Inventories, Sale/Use of New Equipment, and Raw Material for Manufacturer.

Tax Incentives to Encourage R & D.

Accelerated Depreciation.

State Right-to-Work Law, Minimum Wage Law, Fair Employment Practice Code.

Statewide Uniform Property Tax Evaluation Law.

The six States and Puerto Rico have right-to-work Laws. Massachusetts, Michigan and New York, as a contrast, do not have such a law. Alabama and Florida do not have a State Minimum Wage Law. Alabama, Arkansas, Florida and Mississippi, do not have Fair Employment practices laws. Mississippi does not have a statewide uniform property tax valuation law. The six states studied and Puerto Rico all have statewide Air and Water Pollution Control Laws. Puerto Rico also has a law on noise abatement. These laws are costly for companies to observe. Taxes, financial incentives, and training are discussed below. These incentives

become the most important factors once a company is convinced a state has a favorable business climate, labor force availability and lower wage rates, available and relatively inexpensive power and good transportation.

2. Taxes

TABLE 5, State Tax Incentives; TABLE 6, Summary of Corporate Income Taxes for Six States; TABLE 7, Summary of Franchise Taxes for Six States; and TABLE 8, Summary of Initial Taxes for Six States, summarize some of the tax incentives offered by the states. Puerto Rico's tax incentives far outweigh the tax incentives offered by these States. U.S. manufacturers in Puerto Rico, depending on plant location, are exempt from ad valorem taxes for 10-30 years. The income of U.S. companies operating a U.S. corporation in Puerto Rico was exempt from Puerto Rican taxes, as long as earnings were reinvested in Puerto Rico or some foreign venture. Profits could be repatriated tax-free, only at the end of the tax holiday or by the liquidation of the "possession" corporation.[5] Now, under Section 936 of the IRS Code, companies can repatriate earnings from their Puerto Rican operations at any time without payment of U.S. income taxes; but, the funds transfered are subject to a "repatriation tax" levied by the Commonwealth. The latter tax, only recently announced, was viewed as a breach of faith by the officers of some of the companies interviewed. The corporate income tax practices of New York, Massachusetts, and Michigan are included in TABLE 6A. New York and Massachusetts corporate tax is considerably higher than that of the other states considered. Michigan's changed recently.

3. Financial Assistance

The development agency representatives in each of the six Southeastern States in this study and Puerto Rico said that the municipalities and counties of their states provide revenue bond financing. Industry is also assisted thru privately sponsored development credit corporations.

5) Under Section 931 of the IRS Code.

Alabama, Arkansas and Mississippi municipalities/counties also provide financing thru the issue of general obligation bonds. In addition to the above sources, several other types of financial assistance are provided by some states and not by others.

For example, Alabama, Mississippi, and Puerto Rican municipalities and/or counties offer financial aid to expand existing plants. Arkansas and Puerto Rico provide state loan guarantees for building construction, equipment and machinery.6)

The six states and Puerto Rico permit industrial buildings and pollution control systems to be financed using bonds. Arkansas and Mississippi, additionally, permit their use for industrial park financing. The proceeds of bond financing may be used to purchase land, equipment, machinery; landscaping sites; for fees and services; or to buy bond-financed plant on installment basis.

Mississippi offers a variety of financing capabilities. In addition to industrial revenue bonds offered by all six states and Puerto Rico, it offers BAWI Bonds (Balance Agriculture With Industry), and guarantees loans to small businesses under the Mississippi Small Business Assistance Act. The Mississippi Business and Industrial Development Corp., a privately capitalized company, lends medium and long-term capital. There is also a Mississippi Economic Development Corporation. Its first program to generate new capital resources is INVESTAT, a statewide venture capital company. In Arkansas, first and second lieu bonds are available through local now-profits development corporations. The Florida Industrial Development Corporation pools funds of banks, utilities, federal savings and loan associations and insurance companies. The group typically provides working capital in situations where regular bank financing cannot be obtained.

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6) Source: Industrial Development, Nov/Dec. 1975.

Alabama and Mississippi were the two states which offer city and/or county financed speculative buildings; and, along with South Carolina, have cities and/or counties that provide free land for industry. Puerto Rico offers Commonwealth financing for speculative buildings, and owns industrial park sites.

Alabama and North Carolina provide state funds for City and/or County related public works projects, as does Puerto Rico. In Alabama there is a grant formula by which the state provides a municipality with up to $150,000 (based on funds availability) for industrial site improvement. These funds are not a direct grant to the company. They may be used by a public subdivision to upgrade an access road, or extend sewage, if the firm is bringing in sufficient funds.

4. Training

Training programs are the leading special incentives for many companies. Next to a good business climate and a good labor market, the availability of state assistance in recruiting, screening and training is considered a very valuable service. Training programs are important both in Puerto Rico and the Southeast States. The following programs are available:

Arkansas - Offers an Industrial Training Program where upon request, a trained engineer will:

- determine equipment, materials, and number of workers needed;
- produce appropriate training aids;
- help recruit and screen applicants;
- structure and administer pre-employment training.

All this is done at no expense to the industry or the trainee. Arkansas also offers to supervise on-the-job training programs.

Alabama - Has Industrial Development training. It features well equipped trailers that provide on-site training. Alabama is willing to:

- analyze the training needs of a new or expanding manufacturing plant
- prepare custom course outlines
- help in goal-setting and motivational sessions
- prepare and administer supervisory training
- train company instructors
- help in employment advertising and initial screening
- pay all negotiated instructional costs
- help develop training aids and materials

Florida - Does not provide training as an incentive in the manner offered by Alabama, for example. It does have vocational and technical institutions that participate in cooperative education programs.

Mississippi - Like Florida, Mississippi has Vo-Tech Programs offered in vocational schools. It provides a long list of training related support.

North Carolina - Provides industrial training as an incentive. It pays instructors to go to plants to train people. It claims to have pioneered in these programs. Other States have praised North Carolina's efforts, and used it as a model. The state also operates 57 technical schools.

South Carolina - The State Board of Technical and Comprehensive Education operates an extensive training program that includes help, as needed, and requested, in any of the following:

- Analysis
- Master training plans

- Lead time scheduling
- Equipment providing and coordinating
- Key personnel orientation sessions
- Recruiting
- Selection
- Training

The entire program costs an industry nothing. Trainees are not compensated.

Puerto Rico - In its Summary of Industrial Incentives, PRIDCO lists several training programs. These include: a government funded, profit incentive, pre-employment training program; a cost-shared program of in-plant training for managers, supervisors, instructors, and technicians; a learner's program that provides a permit to employ learners at less than minimum wage; apprenticeship programs; and tool and die-maker training.

TABLE 5

STATE TAX INCENTIVES

Taxes Exempted by State	Alabama	Arkansas	Florida	Mississippi	North Carolina	South Carolina	Puerto Rico
Corporate Income Tax Exemption	7						X
Personal Income Tax Exemption			1	X			X
Excise Tax Exemption	X						X
Exemption or Moratorium on Land, Capital Improvements	X			X		X	X
Exemption or Moratorium on Equipment, Machinery	X			X		X	X
Inventory Exemption on Goods in Transit (Free Port)	X	X	X	X	4	X	X
Exemption on Manufacturers' Inventories	X		2	X		X	X
Sales/Use Exemption on New Equipment	X	X		X	5	X	X
Exemption on Raw Materials Used in Process	X	X	2	X	6	X	X
Tax Credits for Use of Specific State Products			3				
Tax Exemptions to Encourage Research and Development						X	X
Personal Property Exempt from Taxation					X		

Footnotes for this Table appear on following page.

Notes for TABLE 5

1. Florida does not have personal income tax.
2. Raw materials are assessed at 25% of "just" valuations; most other tangible personal property is assessed at 100%.
3. Credit applies only to alcoholic beverages produced from specific Florida-grown agricultural products.
4. Applicable to goods stored in bonded warehouses.
5. New equipment is allowed a preferential rate of 1% with a maximum tax of $80 per article.
6. Leaf tobacco is allowed an exemption of 60% of tax rate; bales of cotton, 50%; and peanuts, 20%.
7. Some corporate State Income Tax Exemptions.

Source: State Development Agencies.

TABLE 6

SUMMARY OF CORPORATE INCOME TAXES FOR SIX SOUTHEASTERN STATES

ALABAMA

Federal Tax deductible, 5% of the Apportioned Value of Income (Formula A), i.e., 5% of net taxable income earned in Alabama.

ARKANSAS

Tax Base
Before Federal Tax

Tax Rate

0 - 3000	1%
3001 - 6000	$30 + 2% over $3000
6001 - 11,000	$90 + 3% over $6000
11,001 - 25,000	$240 + 5% over $11,000
25,001 - and over	$940 + 6% over $25,000

Rate applied to Income apportioned to Arkansas (Formula A)

MISSISSIPPI

Base
Before Federal Tax

Rate
3% of first $5,000
4% over $5,000

Rate applied to Income apportioned to Mississippi (Formula A)

NORTH CAROLINA

Base
Before Federal Tax

Rate
6% of the apportioned income (Formula A)

TABLE 6

(continued)

SOUTH CAROLINA

Base
Before Federal Taxes

Rate
6% of the apportioned income (Formula A)

FLORIDA

Base
Before Federal Taxes

Rate
5% of apportioned income, first $5,000 exempt. (Formula B)

PUERTO RICO

Firms established after June 13, 1963 are exempt from corporate and partnership net income tax for those operations declared exempt by Governor after application to and investigation and hearings by the Office of Industrial Tax Exemption (10- to 30-year exemptions).

TABLE 6

(continued)

FORMULA A, FOR THE APPORTIONMENT OF TAXABLE INCOME

$I_A = I_T \times \frac{A + B + C}{3}$, where:

I_A = Income Apportioned to State

I_T = Total Business Income, and

A, B, C = Apportionment factors and weights for income earned within the State

$$A = \frac{\text{Average value of real and tangible personal property used within State}}{\text{Average value of real and tangible personal property used during the year everywhere}}$$

+

$$B = \frac{\text{Total Payroll within the State}}{\text{Total Payroll everywhere}}$$

+

$$C = \frac{\text{Total Sales within the State}}{\text{Total Sales everywhere}}$$

= Apportionment factors and weights for income earned within the State.

TABLE 6

(continued)

FORMULA B, FOR THE APPORTIONMENT OF TAXABLE INCOME

$I_B = I_T \times \left(\frac{A}{2} + \frac{B + C}{4}\right)$, where:

I_A = Income Apportioned to State

I_T = Total Business and

A, B, C = Apportionment factors and weights for income earned within the State.

$A = \frac{\text{Average value of real and tangible personal property within the state}}{\text{Average value of real and tangible personal property used during the year everywhere}}$

+

$B = \frac{\text{Total Payroll within the State}}{\text{Total Payroll everywhere}}$

+

$C = \frac{\text{Total Sales within the State}}{\text{Total Sales everywhere}}$

= Apportionment factors for income earned within the State.

Source: Topical Law Reports, Commerce Clearing House, Inc.

TABLE 6A

SUMMARY OF STATE CORPORATE INCOME TAXES FOR NEW YORK, MASSACHUSETTS AND MICHIGAN

New York Corporate Income Tax

The taxes imposed on business corporations for the privilege of exercising their corporate franchise, doing business, and employing capital, owning or leasing property or maintaining an office in New York, is based on the following, whichever produces the greatest amount:

1. 10% of net income.
2. 78/100 mills per dollar of capital allocated to New York, except 4/10 mill per dollar for cooperative housing corporations.
3. 10% of 30% of net income plus compensation of officers and stockholders owning more than 5% of the issued capital stock less $15,000 and any net loss.
4. $250.00.

Allocation and Apportionment

The entire net income to be allocated within the State is determined as follows:

a) determine the percentages of real and tangible personal property in the State to real and tangible property everywhere, receipts in the State received everywhere, and payroll (executive officers) in the State to payroll (except executive officers) everywhere, add the percentages so determined, divide the result by 3 (for tax use beginning on or after January 1, 1976 the percentage of receipts in New York to receipts everywhere is added twice and the

TABLE 6A
(continued)

result divided by 4), and multiply business income by the result;

b) multiply investment income by a statutory investment percentage; and

c) add the totals of a) and b).

Massachusetts Corporate Income Tax

Tangible Property Corporation

A tangible property corporation is one in which the numerator of tangible property in Massachusetts not locally taxed over the denominator of total assets less Massachusetts assets which are locally taxed when adjusted by a net income allocation factor, equals 10% or more. If the ratio is less than 10%, the corporation is treated as intangible property corporation.

Must pay the greater of the following:

a) the sum of $7.00 per $1.000 upon the value of taxable tangible property if a tangible property corporation or taxable net worth if an intangible property corporation plus 7.5% of taxable net income (8.33% of taxable net income for taxable years beginning after December 31, 1975).

b) $200.00.

A surtax of 14% of the tax imposed is levied. For taxes ending on or after December 31, 1975, but before December 31, 1976, an additional 10% tax is due.

TABLE 6A

(continued)

Taxable income in Massachusetts is determined by multiplying it by a fraction, the numerator of which is the property factor plus the payroll factor plus twice the sales factor and the denominator of which is 4. (For tax years ending on or after December 31, 1976, and before December 31, 1977, and sales factor of the fraction shall have a weight of 1/2 greater than each of the other factors).

The property factor is the ratio of the average value of real and tangible personal property owned or rented and used in Massachusetts to the average value of all real and tangible personal property owned or rented and used during the taxable period.

The payroll factor is the tax payer's total payroll in Massachusetts during the taxable period compared to his total payroll everywhere during the same period.

The sales factor is the tax payer's total sales in Massachusetts during the taxable period compared to the total sales everywhere during the same period. A factor shall not be applicable if the denominator of the factor is less than 10% of 1/3 of the taxable net income or if it is otherwise determined to be insignificant in producing income.

Domestic and foreign corporations engaged in interstate commerce and not subject to the corporation excise tax, pay an annual tax of 5% and that portion of their net income derived from business carried on in the state.

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TABLE 6A

(continued)

Michigan Corporate Income Tax

Effective January 1, 1976, Michigan's various business taxes were replaced by a single business tax on every industry, corporation, partnership, financial institution, estate and trust with business activity in the State. The tax will be 2.35 percent of the adjusted tax base which is composed of payrolls, profits, interest and depreciation.

The adjusted tax base is the base allocated and apportioned to Michigan, the adjustment allowed after allocation and specific exemptions.

The allocation is made according to Formula A of TABLE 6.

Uniform City Income Tax Ordinance authorizes cities in Michigan to impose a 1% (2% authorized for Detroit) on corporations for work done, or business activity conducted within the city.

Source: Topical Law Reports, Commerce Clearing House, Inc.

TABLE 7

SUMMARY OF FRANCHISE TAXES FOR SIX STATES

Alabama

$3 per $1000 of capital stock, minimum $25
No par valued at $100

Arkansas

11/100 of 1% of the proportion of its outstanding capital stock that its real and tangible property in Arkansas bears to property in all states.
Minimum $11

Florida

$5 filing fee

Mississippi

$2.50 per $1000 or fraction thereof of the value of the capital used, invested, or employed in Mississippi.
Minimum $10

North Carolina

Total amount of capital stock, surplus, and undivided profits apportioned to the state.
$1.50 per $1000

South Carolina

Based on dollars paid to capital stock and paid in surplus apportioned to state.
1 mill per dollar - minimum $10

Source: Topical Law Reports, Commerce Clearing House, Inc.

TABLE 8

SUMMARY OF INITIAL TAXES FOR SIX STATES

Alabama

$1.00 per $1000 of total authorized capital stock (5.00 min.)
No par stock valued at $100.

Arkansas

(Based on authorized capital; number of shares x fixed par value of stock)

$1 - $ 100,000	$15
100,001 - 1,000,000	$ 1 each $10,000
1,000,001 - 10,000,000	$ 1 each $20,000
10,000,000 and over	$ 1 each $40,000

(No par stock valued as follows)

1 share to 2,000 shares	$15
2,001 shares to 10,000 shares	$ 5 each 1000 shares
10,001 shares to 100,000 shares	$ 2.50 each 1000 shares
100,001 shares and over	$ 1 each 1000 shares

Florida

(Authorized stock with par value)

Up to $125,000	$4 each $1000 of par value stock
$125,001 to $1,000,000	$1 each $1000 over 125,000
1,000,001 to $2,000,000	$.50 each $1000 over 1,000,000
2,000,001 and over	$.25 each $1000 over 2,000,000

TABLE 8

(Continued)

Florida (Continued)

(No par value)

Up to 1250 shares	$.50 per share
1,251 shares to 10,000	$.75 per share over 1250
10,001 shares to 20,000	1/20 of 1¢ per share over 10,000
20,001 or more shares	1/40 of 1¢ per share over 20,000

(minimum $30)

Mississippi

Authorized Common Stock Fee

$5,000 or less	$25
Over $5,000	$25 plus $2 each additional $1000

Minimum Fee $25 Maximum $500

North Carolina

40¢ each $1000 of total authorized stock

Minimum Fee $40 Maximum $1000

No par stock valued at $1 per share

South Carolina

Each $1000 of authorized capital, $.40

Minimum $40 Maximum $1000

No par stock valued at $10 per share

Source: Topical Law Reports, Commerce Clearing House, Inc.

COMMENTS AND OPINIONS OF THE PUERTO RICO MANUFACTURERS ASSOCIATION ON THE EXCLUSION OF PUERTO RICO FROM HR 3744 AMENDMENTS TO THE FAIR LABOR STANDARDS ACT

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March 17, 1977

COMMENTS AND OPINIONS OF THE PUERTO RICO MANUFACTURERS ASSOCIATION ON THE EXCLUSION OF PUERTO RICO FROM HR 3744 AMENDMENTS TO THE FAIR LABOR STANDARDS ACT

I. INTRODUCTION

The exclusion of Puerto Rico from HR 3744 is, in our view, beneficial to the island's economy, when one considers the peculiarity of its economic conditions; for Puerto Rico as a region shows a number of characteristics which, due to structural reasons, are considerably different than those prevailing in the rest of the United States.

While there are considerable homogeneities among the states of mainland United States, as, for example, measured by per capita incomes, Puerto Rico shows more heterogeneity with respect to the rest. No doubt, per capita income is a crude measure of the prevailing differences; nevertheless the heterogeneity is clearly reflected in the income differentials. Per capita income in mainland United States in 1975 was about $6,000, while in Puerto Rico it barely exceeded $2,200, in other words it stood at about one-third of the national average.

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Another striking difference which reflects this heterogeneity is in the level of unemployment. The national average today is 7.5% (February 1977), whereas in Puerto Rico it stands at 21.4% (January 1977). Even in the most prosperous periods, the island's economy has not been able to solve the unemployment problem. During the past three decades, the economy of Puerto Rico has experienced a significant rate of growth by making excellent use of carefully balanced two major policy instruments, namely, the ability to exempt basically, but not exclusively, manufacturing activities from income and property taxation, and taking advantage of the existing wage differentials in practically all occupational levels. Large scale United States investments have been the main impetus through which an annual rate of growth of around 6-7% (in constant prices) has been achieved. Nevertheless, and despite the outgoing migration, Puerto Rico has not been able to eradicate its persistent unemployment. The unemployment rate which has stagnated around 10-12% even when the United States economy was enjoying years of full employment; today, after the last recession, it stands at over 20%. At a time when the island's economy is showing definite but very faint signs of recovery, following the pick-up of economic conditions in the United States (see Appendix I), the inclusion of Puerto Rico into HR 3744 would seriously hamper the circumstances which would otherwise lead the economy towards a fuller recovery.

II. THE BASIC POSITION OF THE ASSOCIATION

It must be stressed right at the outset that the Puerto Rico Manufacturers Association never argued, nor will argue, that the manufacturing sector of the

island is sustainable only with low wages. On the contrary, this sector has always paid the highest possible wages that it could afford. The Association is of the opinion that workers have priority over machines and that moderate wage rates with full employment are preferable to high wage rates and excessive unemployment. In other words, the rates of increase should be tailored to the island's needs for jobs. An increase in minimum wages now, totally disregarding the 20% rate of unemployment, would have negative impacts not only on manufacturing activities in Puerto Rico by weakening their position especially vis-a-vis low wage rate foreign countries, but would also cause investment funds to be shifted elsewhere and hence having undesirable effects on the balance of payments of the United States. In addition, it would prevent the achievement of a more equitable distribution of income, may cause social discontent, may increase crime and the welfare burden and may also increase the outward migration of the population with undesirable spillover effects into mainland areas.

In view of this basic position, the Association would like to recommend that the implementation of the raise in the minimum wage be postponed until the economy of Puerto Rico is recovered from the shocks of the last recession. This position is not based at all on the interest of manufacturers alone, but on carefully analized economic conditions as well as on the studies done and opinions emitted previously. The maintenance of a favorable industrial climate, which is conducive to continued and expanded manufacturing activity in the island is a common interest to be shared by the public as well as the private

sector, by employers and investors as well as by employees.

It needs no recapitulation that the Fair Labor Standards Act has a very honorable aim: to raise the level of welfare of the economically disadvantaged. This is a very important function if the majority of covered employees already receive wages above the legislated minimum rate. But in areas where the reverse holds, it could add to the number of the economically disadvantaged, thus aggravating the situation for which it aims to find a cure.

Why is this so? Why would the federal legislative intent acquire an entirely different facet in Puerto Rico? The answers to these questions can best be given by examining the labor situation in Puerto Rico and the cost components of its manufacturing industry.

1. The current unemployment situation

The recessionary forces that have been rampant in the entire world economy, sharply reducing the output growth in major industrial economies, shrinking the world trade in commodities and causing the paradoxical phenomenon of inflation with unemployment, have not spared Puerto Rico from their devastations. In fact, the impact on the Puerto Rican economy has been many times more severe than the developments in the United States. The dramatic development of the island during the past two decades, with sharp increases in exports of manufactured products and expecially of those in labor intensive industries, has almost come to a halt. Unemployment, which has always been sharply higher than in the mainland, has risen to record levels of almost 22% in the beginning of 1976 and is still over 21% in the beginning of 1977. In some regions of the island it has

even reached 38%. These are the official unemployment figures relating to those who are actively seeking work. Undoubtedly, estimates of unemployment which take account of the ability and willingness to work are much higher, since they also count those that get discouraged and give up the search for work. It is crucial to add that the overall unemployment rate in mainland United States was 8.6% in the second half of 1975 and had declined to 7.5% in February 1977.

In the manufacturing sector, specifically, the decline in the rate of growth of output was already felt during fiscal year 1974; in the last quarter of 1974/75 employment in the sector had fallen by 14.6% over the same quarter of the previous year and this decline was registered in all branches of the sector with varying intensities, the greatest percentage decline being in the labor intensive industries. A large portion of the reduction in the employment in these industries is due to ceasing of operations on our island and their relocation in countries where labor cost is substantially lower (Appendix II). The overall unemployment rate in the sector was 23.2% in June 1975, while a year ago it was 15.5%. By contrast, in mainland United States it was substantially lower at 12% and 5% respectively. Since then the unemployment rate in the sector declined from 10.7% in the second half of 1975 to 7.5% in the first quarter of 1976 in mainland United States, while in Puerto Rico during the same period under consideration it continued to rise, having reached 28% in February 1976.

Even with the best policy to generate jobs, the island faces severe unemployment problems for several years. The generation of new jobs in whatever areas possible and prevention of the decline in existing levels of employment is one of the main pillars of the development strategy of the Commonwealth Government.

For it is estimated that a total of 1,278,000 jobs would be needed by 1985 to achieve reasonably full employment in Puerto Rico. This is 536,000 more jobs than existed in June 1976; it implies the generation of almost 54,000 jobs annually, which is about four times the increase actually realized from 1960 to 1970.

As improved technology substitutes machinery for machine operators, generation of manufacturing employment will be all the more difficult, and the process will not be made easier by wage hikes caused by increases in statutory federal minimum wage rates.

2. Dependence on labor intensive industries

The grim unemployment picture is all the more aggravated by the fact that within the manufacturing sector -- which together with tourism (although to a much lesser extent) has been the prime force behind Puerto Rico's economic growth -- labor intensive industries, because of relatively low wages and requirements of simpler skills which can be learned in a relatively short period, have been the most prominent. These industries, mainly textiles and apparel, food processing, tobacco, shoes and leather products, altogether account for two-thirds of all manufacturing employment and about one-half of total manufacturing exports of the island. Because labor is the highest single cost in these industries, they are precisely the ones that are most profoundly affected by wage hikes. And this with two respects: One is the impact of wage increases on plants that are already established; these will be forced to increase production with reduced labor so as to salvage their investment in plant, time, experience,

and effort in Puerto Rico; otherwise they will relocate in countries where labor costs are not prohibitive, which has been the experience in 1975. The second is the impact on the growth of the labor intensive industry, since higher wage costs impede the new investor from locating in Puerto Rico. Neither impact is conducive to the reduction of unemployment.

One could argue that loss of attractiveness to low wage industry should not diminish the reliance on low wage, labor intensive factories. The grimness of the Puerto Rican case, however, is that the growth of such factories is declining long before anything close to full employment of the labor force is achieved. The record of the last 10 years shows that the type of industry which offers a massive number of jobs, with relatively low investment requirements per job is providing a smaller and smaller part of new investment in Puerto Rico. This is mainly due to their vulnerability to wage increases which in Puerto Rico are very closely linked to changes in the federal minimum rate, and may indicate a very important lesson that wage increases which aim at capturing more income for the labor force may well do just the reverse and add to the number of the economically disadvantaged rather than reduce it.

3. Comparative advantage of island manufacturing industries

There is every indication that Puerto Rico is gradually losing its comparative cost advantage in many lines of its manufacturing operations, and this despite the higher absolute level of value added per dollar. The reason lies in many factors:

a. Absolute levels of productivity are higher in many lines in Puerto Rico compared to the mainland. But absolute levels are irrelevant when it

comes to assessing comparative cost. What is relevant is the change in these levels. While value added per dollar of payroll increased in all comparable industry groups in the United States, it declined in eight groups, including apparel and textiles, lines which employ the highest portion of the manufacturing labor force.

b. Average hourly earnings among all manufacturing industries have been continuously rising and at a rate faster than that experienced in the mainland, so that the differential that stood at 71% in 1950 was reduced to 43% by January 1977. Among high wage industries rises ocurred as a result of market forces; but in those industries with hourly earnings below the federal minimum, upward pressure has been exerted mainly by the minimum wage legislation. The reason for the federal minimum to push up wages much faster in Puerto Rico than in the United States lies in the close relationship of the average wage with the federal minimum. Average hourly earnings in Puerto Rico fluctuate in a narrow range of about 15% with respect to the minimum, while in the United States they are estimated to be at least the double of the minimum. This means that the proportion of covered employees directly affected in the United States is much smaller than in Puerto Rico. It is estimated that the 1966 amendment to the Fair Labor Standards Act affected 79% of all covered employees compared with only 20% in the United States. It is also unofficially estimated that the new amendment HR 3744 is likely to affect at most 25% of the labor force in the mainland, whereas at least 50% are likely to be affected in Puerto Rico.

It should be added that direct wage payments are not the only element in the unit labor costs of manufacturing operations. In addition, there are labor related costs: fringe benefits that have the form of social security, unemployment compensation, workmen's compensation, vacation and sick leave, disability insurance, dismissal pay, maternity leave, and Christmas bonus. Some of these are common between Puerto Rico and the Mainland, such as contributions to social security; other are either at a lower rate in the mainland or do not exist at all. It has been estimated that in 1974, mandatory benefit payments constituted 9.98% of gross payroll in the United States, while they amounted to 22.28% in Puerto Rico. They are thus at least 123% higher in Puerto Rico. Consequently, what is truly significant in comparison of costs of operating in Puerto Rico as opposed to the mainland are the differences not in wages alone, but in wages plus mandatory benefits.

An example from the Textile Mill Products industry might illustrate the impact that federal minimum wage rate increases might have on the wage bill. In this industry group, hourly earnings in the United States are above those in Puerto Rico. In 1975, they varied between $3.43 and $3.83 according to the industry sub-group. In Puerto Rico, as of November 1975, they varied between $2.12 and $2.56, but because of the preponderance of workers with hourly earnings of $2.18, the average was $2.19. The minimum wage was $1.75, i.e. average earnings were some 25% above the statutory minimum. In may 1976, when the industry was reviewed, the maximum recommended by the Committee could have been.

$2.30. However, the Committee recommended a lower salary. Had the minimum been raised to $2.30, the same differential between the minimum wage and average hourly earnings would have implied an average wage of $2.88 in the textile industry in Puerto Rico. The $1.51 difference between the United States hourly earnings of an average of $3.70 and $2.19, would have been reduced to $0.82, i.e. by 47%. In other words, while hourly earnings in the textile industry in Puerto Rico were 59% of the average of the United States prior to the revision of the minimum wage, they would now have represented 78% of these earnings after the raise of the minimum wage to $2.30. It is obvious that the increase of the federal minimum to $3.00 an hour as implied by HR 3744, if applied to Puerto Rico, would raise wages dramatically for this industry, always under the assumption of maintaining a differential between straight time hourly earnings and the federal minimum. This would be so, because unions would be likely to demand in the next round of wage negotiations, similar percentage pay rises for their members. Even if they did not, the management would be obliged to also revise upward those wages that are above the proposed federal minimum to maintain incentives and differential pay for differential jobs.

c. Among other factors that affect the competitive position of manufacturing operations is the dramatic escalation of petroleum prices since 1973, when the price of a barrel of imported oil (on which Puerto Rico relies exclusively) was quadrupled. Since then, oil prices have been continuously

increased by the OPEC cartel. The result is that Puerto Rico's fuel and power costs have soared. While this may not be a major factor in Puerto Rico's competitive position with respect to low-wage foreign countries which also rely on imported oil, it has certainly affected Puerto Rico's position vis-a-vis the mainland where fuel costs have not risen commensurately.

A further significant cost item is ocean freights, which are reflected once in the cost of in-bound materials, and then again in the price of the exported product. These acquire significance because given the lack of raw materials, nearly all the industries must use imported materials; and given the small size of the local market, nearly all of the industrial products must be sold outside Puerto Rico, almost entirely in the United States. Once again, the competitive position vis-a-vis the mainland acquires added significance. It is impossible to establish industry by industry the impact of freight rates on unit costs, but it has been estimated that the average approximates 7.5% of the value of products shipped. This impact is expected to rise in view of the pending increase in port charges and fees.

III. CONCLUDING REMARKS

It can be safely stated that for most operations in Puerto Rico all costs, except labor, exceed the existing levels in the United States and the difference that exists between labor costs has been gradually eroded, adding to the decline in the competitive position of industries. Undoubtedly, given the preponderance of relatively low wage labor intensive industries on the island, minimum wage

legislation over the years has contributed to the increase in labor costs and to additional loss of comparative advantage.

The economic growth of Puerto Rico has been remarkable, but the island has not as yet reached the level of development that has been achieved by even the poorest states of the Union. Per capita income in Puerto Rico is 55% that of Mississippi (Appendix III). The Association is of the opinion that given the marked structural differences that exist between Puerto Rico and the United States, a legislation of such significance as the one regulating minimum wages needs to be treated differently to fulfill the purpose of this intended impact. The existing differences, all the more obvious especially after the devastating impact of the last recession, surely call for a differential treatment, hence exclusion from HR 3744. This assertion is neither whimsical nor chauvinistic. Several mainland economists who have closely examined the economic situation of Puerto Rico have come to similar conclusion. Two examples would illustrate the point adequately.

Professor Lloyd G. Reynolds, in an article published in American Economic Review (March 1965) has the following to say:

> "Development policies which are not oriented toward using the abundant labor supply will fail to maximize national output... A country which considers employment expansion important should ponder the wisdom of raising the price of labor... Modern western reasoning about wages in which labor is taken as a scarse factor may be quite misleading."

It is going to be very difficult to expand manufacturing employment as improved technology, forced by higher wages, will continue to replace machine operators. Professor Reynolds estimates:

> "...The amount of employment foregone as a result of wage increases is estimated to be 29,000 jobs between 1954 and 1958 in manufacturing sector alone."

These conclusions clearly indicates the dangers which an economy like Puerto Rico is fraught with if wage increases, institutional or otherwise, are indiscriminately applied while the surplus labor is one of the characteristics of the economy.

In 1967, Leon Keyserling of the Council of Economic Advisers had this to say:

> "...no responsible economist in the United States, inside or outside the labor movement, has consistently advocated for the US a more liberal and progressive wage policy than the author of this study. In the long run, the well-being and progress of the people of Puerto Rico will be better served if general wage rates in Puerto Rico are not affected so powerfully, and if minimum wage rate trends in Puerto Rico are not geared so automatically and unrealistically to a federal legislative formula, the general orientation of which is to economic conditions and needs on the mainland and not in Puerto Rico..."

It is of paramount importance at this point of time to recognize that Puerto Rico, because of its suigeneris conditions, be excluded from HR 3744, so that it may be able to succeed in its efforts to achieve the pre-recession imbalances. A minimum wage of $3.00 an hour is bound to have very dissimilar impacts in Puerto Rico than in the continental United States. As it was emphasized, the Association is not arguing for low wages per se, but for the exclusion of Puerto Rico from HR 3744 until Puerto Rico has reduced its unemployment rate to a reasonable level. Otherwise, it would be unfortunate for Puerto Rico in particular, and the United States in general, to have firms and jobs legislated out of existence or exiled to foreign countries.

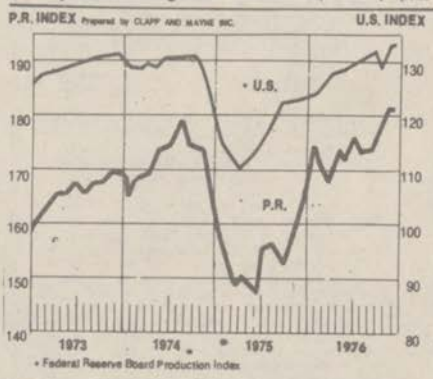
The denial of such exclusion would impose greater burden of welfare support on all American taxpaying citizens, both in the mainland United States and in

Puerto Rico, a burden that amounts to hundreds of millions of dollars annually. It is not desirable for any state or an associated state to depend heavily and continuously on federal transfers and grants or have permanent drains on its unemployment benefit funds. Puerto Rico needs the help of the Federal Government now, perhaps more than ever, but this help ought to be in a constructive form, namely help in expanding manufacturing activities, help in reducing unemployment, help in recognizing regional differences. The exclusion from HR 3744 is, in our mind, one of the most basic helps the Federal legislators and Federal Government can extend to Puerto Rico. A strongly expanding economy is the best cure for unemployment, a stroke of pen may prove to be more powerful in achieving higher welfare standards, better income distribution, maintenance of human dignity than hundreds of millions of dollars to support welfare.

APPENDIX I

THE SAN JUAN STAR—Tuesday, March 8, 1977.

Monthly Manufacturing Index (Base 1967 = 100) Seasonally adjusted



JULY Index	U.S.	P.R.
Current Month	132.8	181.0
Previous Month	131.7	181.2
Previous Year	124.4	168.1
Per Cent Changes		
Month Ago	+0.8	-0.1
Year Ago	+6.7	+7.8

Overall manufacturing activity in Puerto Rico during the month of December remained the same as that of November 1975 after adjusting for normal seasonal changes according to the Clapp and Mayne Inc. Manufacturing Index. In contrast, industrial production in the U.S.; as measured by the Federal Reserve Board, rose by almost one per cent.

The durable good manufacturing index declined by about 2.1 per cent due, primarily, to a drop of 10.6 per cent in activity in professional and scientific instruments. In contrast to other durable goods industries, the machinery industry continued to increase its activity to the point where it is now more than double its pre-recession average.

The outstanding performer in the non-durable group was that of the chemical industry which showed signs of outstripping the U.S. counterpart for the first time since the recession.

APPENDIX II

Tax, Labor Boons Boost St. Kitts Industry

By HARRY L. FRIDMAN
STAR Business Editor

Low wages, extensive tax breaks and an abundant labor supply have brought a flourishing of industry to Leeward islands St. Kitts-Nevis, some 225 miles east of Puerto Rico.

Starting with Curtis-Mathes, the television manufacturer that two years ago closed its local Toa Alta plant with 600 employes to move to St. Kitts, the two British islands have reported a "trend showing definite signs of increasing."

The minister of trade, industry and tourism, C.A. Paul Southwell, said "we are in advanced stages of negotiations with two or three U.S. electronic and garment companies who have looked at St. Kitts, like what they see here, and have expressed strong interest in establishing plants."

Southwell announced the addition of a 20,000 square foot shoe factory, first of its kind in the Eastern Caribbean Common Market area, under construction and scheduled to open next March.

He said the plant initially would employ 60 to 70 workers with ultimate growth to 300 within three to five years.

The new factory is owned by the government and local interests and the Caribbean Investment Corp., with financing arranged by the Caribbean Development Bank. Ministry officials said the plant will use raw materials from Eastern Caribbean Common Market countries.

The officials added that establishment of the shoe factory was another step forward" in the islands' program to attract suitable industries "from the U.S. and elsewhere".

A 41-acre, fully-serviced industrial park has been established on St. Kitts and plans are being developed for a 30-foot draft deepwater port. The island's Golden Rock International airport can handle jet freighter aircraft, and the government said it would take advantage of air freight tariff differentials.

"Charter flights and itinerant air freighters generally fly south out of Miami, New York and Canada or England with full loads of meat, vegetables, machinery or other items for St. Kitts and other Caribbean islands," a government spokesman said. "But, because the West Indies are not notable air freight exporters, the freighters generally must fly back empty. To help fill the expensive and otherwise unused space, they offer much lower rates on the return flights."

Construction is expected to begin in three months, with completion scheduled within one year, of another, 15-acre industrial park on Nevis, with a 6,000 square foot factory shell as part of the initial phase. The project is being financed through the British Development Division.

Curtis-Mathes, which left Puerto Rico under a cloud when it announced the move to St. Kitts, has been hailed in that island as "a case study of what can be done here," the government spokesman said, adding the firm was influenced by the "stability of the government and the forward-looking attitude of its leaders." He said the company now employs 400 workers in plants on St. Kitts and Nevis, manufacturing 2,000 color TV chasis per week.

The statement was at variance, however, with those published in the STAR in August, 1973, when the move was announced. Toa Alta plant manager Charles R. Mathes said then "it simply has become uneconomic to continue, since our manufacturing capacity was exceeding our sales capability".

However, he added that the average daily wage at the St. Kitts plant was $4 compared to $16 in Toa Alta.

He admitted St. Kitts posed "logistic problems" because it is a foreign government, lacks raw materials and has "less talented" workers, but the low salaries would make up the difference.

Two former employes believed at the time a problem with a local labor union, which led to a heavy layoff in December, also influenced the company's decision. Morale was reportedly very low in the area as the company made its down-island move.

For 300 years St. Kitts-Nevis which claim themselves as "the birthplace of the West Indies sugar empire," have relief on sugar cane as their major industry. The current crop is expected to yield about 30,000 tons and still provides the islands' major earnings. St. Kitts also grows some Sea Island cotton.

Population of the two islands is reported as 65,000 as of 1974.

SAN JUAN STAR
October 13, 1976

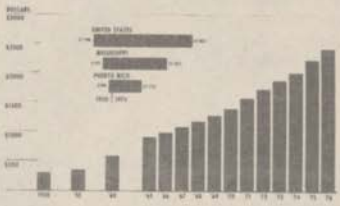
APPENDIX III

Government Development Bank For PUERTO RICO

Puerto Rico Business Review

Vol. 2, No. 2 February 15, 1977

PERSONAL INCOME PER CAPITA



5. Personal Income Per Capita
   a. In 1976 per capita personal income reached $2,422.
   b. This contrasts with per capita income of $587 in 1960 and $296 in 1950.
   c. Puerto Rico has the highest per capita income in the Western Hemisphere, excluding the U.S., Canada and the U.S. Virgin Islands.
   d. U.S. personal income per capita in 1975 was $5,902. Puerto Rico was in 1975 at around 38% U.S. average and 55% that of Mississippi; whereas in 1950, Puerto Rico was only 20% and 39% of the respective mainland averages.

Puerto Rico Manufacturers Association
ASOCIACION DE INDUSTRIALES DE PUERTO RICO

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DR. HERMINIO M. BRAU
Presidente

LCDO. HECTOR JIMENEZ JUARBE
Vice Presidente Ejecutivo

May 9, 1977

Hon. Baltasar Corrada del Río
Resident Commissioner
of Puerto Rico in Washington
1319 Longworth House Office Building
Washington, D.C. 20515

Dear Mr. Corrada del Río:

We have studied your proposed alternate amendments to the Fair Labor Standards Act. Our comments on them are as follows.

I. We understand that you are proposing the following:

a. Firms complying with the prevailing minimum wage of $2.30 an hour will pay $2.65 an hour as of June/July 1977, and will keep pace at the rate of 55% of the national average manufacturing wage.

b. Firms whose minimum wages range from $2.00 to $2.29 would raise their minimum rates by $0.30 a year until they catch up with 55% of the national average manufacturing wage.

c. Firms who pay a minimum wage less than $2.00 an hour would increase the wage rate by $0.25 a year until they too reach 55% of the national average manufacturing wage.

II. It is also our understanding that the base of the flexible increases is the minimum wage rates of any current year. Thus, a minimum wage of $1.95 would increase by $0.25 to $2.20 in June/July 1977, but then would be raised by $0.30 to $2.50 in 1978 and to $2.80 in 1979.

Presidente Honorario: ALFONSO VALDES · *Presidente Saliente:* RAMON B. RODRIGUEZ
Primer Vice Presidente: DANOL A. MORALES, *Vice Presidentes:* DONALD E. JARVELA, VICTOR S. MALDONADO, ALEX T. RAGAN, *Secretario:* CHARLES E. KONIG, *Tesorero:* HENRY REXACH, JR. · *Directores Regionales:* ELIAS BLANCO *(San Juan)*, ARTURO FRANCISCO DIAZ *(San Juan)*, ERNESTO A. CASTILLO *(Bayamón)*, HILDA SOLTERO HARRINGTON *(Bayamón)*, ELIOTT O. REYES *(Vega Baja)*, NESTOR F. DELGADO *(Arecibo)*, ARTURO G. COLON *(Aguadilla)*, CHRISTIAN GALVIS *(Mayagüez)*, RAFAEL LUIS ROVIRA *(Ponce)*, MARIA I. RODRIGUEZ QUETGLAS *(Caguas)*, VAL A. EIGENMANN *(Humacao)*, HENK WILLEMS *(Carolina)*, SALVADOR GOMEZ *(Fajardo)*

III. This memo first traces the general tendency of the likely impact of this proposal with the basic information given in IV below and then looks into the implication for three labor intensive industries: apparel, tobacco and textiles.

IV. The basic information on which the general analysis is based on the following.

a. As of February 1977, there was in effect in Puerto Rico a range of hourly minimum wages from $1.65 to $2.30 in various lines of manufacturing activities (see US Department of Labor, WH Publication 1348 and subsequent amendments) with the majority of the workers concentrated at the upper end of the range.

b. Various industry surveys by the Wage and Hour Division of the US Department of Labor indicate that on the whole average wages in manufacturing are 25% higher than the legal minimum.

c. A change in minimum wages is unofficially estimated to affect about 20% of the employed labor force in manufacturing.

d. Past tendencies show that whenever minimum wages rise, sooner or later wages above the minimum rate are also pushed upward.

V. The general impact of this proposal is given in Table 1. Column 1 lists the range of existing minimum wages; Column 2 gives the likely average wage corresponding to a particular minimum wage; and Column 3 gives the ratio of the likely Puerto Rico average wage to United States average manufacturing wage. Columns 4, 7 and 10 give the minimum wages entailed by the proposal; Columns 5, 8 and 11 estimate the likely average wage corresponding to a particular minimum wage level; and Columns 6, 9 and 12 give the ratio of Puerto Rico wage to the United States average manufacturing wage. Columns 13, 14 and 15, give the likely annual increases in average wage

Accordingly, those establishments that currently pay a minimum wage of $2.30 an hour, will pay $2.65 in June/July 1977, $3.00 in 1978 and $3.21 in 1979. (The rates for 1978 and 1979 assume a national average manufacturing wage of $5.46 and $5.84 an hour, respectively, as quoted by the Resident Commissioner in San Juan Star of April 1977). Assuming that average wages in Puerto Rico are about 25% higher than the minimum, the average wage for this category will have risen from

58% of the mainland average in April 1977 to 69% in 1979. The relative wage advantage of Puerto Rico will thus be reduced in two years from 42% to 31%.

Those currently paying minimum wages of $2.00-$2.29 will pay rates ranging from $2.80 to $3.19 in 1979; in other words, they will not have fully caught up with 55% of the national average manufacturing wage. Nevertheless, the advantage will be reduced in these categories also; for while now average Puerto Rico wages in these categories are 50%-57% of the national average manufacturing wage, they will be increased to 65%-66% of the national average. Thus, the differential will fall from 50% to 38% for the lower end of the bracket and from 43% to 32% for the upper end of the bracket.

Those establishments that currently pay minimum wages of $1.65-$1.99 will pay rates that range from $2.45 to $2.84 in 1979. The average wages in these categories will have increased from 41%-50% of the United States average in 1977 to 52%-61% in 1979, i.e. the differential will have reduced from 59%-50% to 48%-39%.

The essential point, however, is the following: EDA plants employ 116,600 workers (according to the latest figures available which refer to the last quarter of 1976). These represent 81.5% of total employment in manufacturing. Average wage in these plants stands at $2.87 which leads one to believe that in all likelihood, a considerable proportion of workers in EDA plants, the backbone of all manufacturing activities in Puerto Rico, are above the current minimum of $2.30 an hour. An increase along the Resident Commissioner's proposal will in all likelihood raise the payroll in 1977 by 14.8%. This figure is arrived at as follows: If we assume that 80% of workers in EDA plants received $2.30 or more an hour, and 20% received $2.30 or less, and if the wages of those receiving $2.30 or more an hour are to rise by 15.0% and the remainder by about 14% (Column 13 of Table 1), the weighted average is 14.8%.* Along similar lines of reasoning, one can say that in 1978, the increase in average wage is estimated to be 13.2%, to drop to 7.8% in 1979

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* In a sample of seven industry groups from the latest publications of the Wage and Hour Division of the United States Department of Labor (all refer to same month in the second half of 1976) out of 26,916 workers in question only 5,470, i.e. 20.3%, had average hourly earnings below $2.30.

As will be seen from Table 2, your proposal reduces the immediate impact of minimum wage revision on those workers who are subject to a minimum wage less than $2.30 an hour, both with respect to the White House proposal and with respect to the Dent bill. By reducing the immediate impact in the initial year, it distributes the overall impact more evenly between the years for these categories. While the Dent bill creates a drastic impact immediately, with respect to minimum wages of $2.30, the Resident Commisioner's proposal is more lenient than the Dent bill, but stiffer than the White House proposal for the latter category.

The crucial question is: while we are experiencing an unemployment rate of 20%, how wise is it to increase labor cost. Those who remain employed will undoubtedly benefit from it. But then we are likely to face reduced investment in labor intensive industries in Puerto Rico and a shift from labor intensive to capital intensive industries. As it is argued before, the main question centers around how healthy it is for the economy to jack up one of the cost elements in manufacturing operations. At this point of time, given the conditions prevailing currently in Puerto Rico, it is not warranted that we do so.

VI. Textile, apparel and tobacco: industries most likely to be affected.*

These three industry branches are very labor intensive. According to the October 1976 Census of Manufacturing Industries (Puerto Rico Department of Labor) they employ 45,862 persons, i.e. they account for about 32% of employment in all manufacturing. Production workers-who are subject to minimum wage - number 42,954, i.e. 36% of production workers in all manufacturing. These three industries, therefore, represent about 1/3 of the employment in all manufacturing industries in Puerto Rico. Within these three branches apparel is the most important with 34,743 production workers, (81%).

Labor is the single most important cost item. In the apparel industry labor costs are no less than 25%, in textiles no less than 20% and in tobacco a similar amount of total costs.

Average hourly earnings is $2.41 in the tobacco manufactures, $2.36 in textiles, and $2.34 in the apparel indust.

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* These are dramatic examples of how these amendments will affect industries in Puerto Rico.

One more factor should be noted: many of the establishments in Puerto Rico are either subsidiaries of United States firms and/or ship most of their final products to the mainland.

The characteristics of the same industries in mainland United States are as follows:

The apparel industry employs 1.3 million persons representing 7% of total manufacturing employment; the textile industry employs 5% and the tobacco industry only .4%. In other words, the three industries altogether represent 12.4% of all manufacturing employment in the United States as opposed to about 32% in Puerto Rico.

Average hourly earnings in these industries are far above those of Puerto Rico. In the textiles, it is $3.75, as opposed to $2.36 in Puerto Rico; in tobacco manufacturing it is $4.51 as opposed to $2.41 in Puerto Rico; and in the apparel industry it is $3.40 as opposed to $2.34 in Puerto Rico. (It is worth mentioning that the estimate compensation for apparel workers ranged from $0.64-$0.67 an hour in Hong Kong; from $0.25-$0.27 an hour in Korea; from $0.37-$0.38 an hour in Taiwan; and was about $0.14 an hour in the Philippines).

It is quite evident that average hourly earnings in Puerto Rico are very close to the statutory minimum wage; whereas in the United States they are at least 47% above it. Consequently, an increase in the statutory minimum wage level is bound to have a more profound effect in Puerto Rico than in the United States. If all industries were to close down (which is not likely to happen) and lose their operations to foreign competitors, the unemployment rate in the United States would rise to about 9.5%, whereas in Puerto Rico it would come very close to 25%.

In other words, because of the high preponderance of these three industries in Puerto Rico, any closing down of an establishment due to high labor costs would add substantially to the rate of unemployment which is already high.

These industries are already facing stiff competition from the countries where the labor cost is a very much smaller part of costs than it is in the United States. It needs no emphasizing, nor reminding, that currently these industries in the United States are requesting higher protection to survive. Whether or not the United States government will grant such a protection and to what extents and in which

form, is beyond the scope of these comments. But it is obvious that cost increases from minimum wage revisions will be putting these industries in Puerto Rico in a much less competitive position than they are in already.

The closeness of the average hourly earnings in these industries to the minimum wage levels has been indicated in the previous paragraph. Consequently, any percentage increase in the minimum wage is likely to raise average earnings by the same percentage increase. A simple calculation will illustrate the point.

Your proposal implies an increase of the minimum wage from $2.30 an hour to $2.65 an hour in July 1977 and to $3.21 an hour in 1978 for those workers who are currently being paid the statutory minimum, i.e. by 13.2% immediately and by 10.7% in the subsequent year. As Table 2 indicates, the overall increase taking the differential between average hourly earnings and the hourly minimum wage, is between 14%-15%. Applying this increase to the currently existing average earnings in the three industries, the following results are obtained which are also given in Table 3.*

Assuming that employment remains unchanged, your alternate minimum wage revision will immediately face the tobacco industry with an additional weekly payment of $60,984 in wages, the textile industry with $46,836; and the apparel industry with $428,016.

The impact on total cost will range from 3-3.75% in this first change alone. These industries being fairly labor intensive, such increases are likely to play havoc in their cost structure, especially if one keeps in mind that other cost components, such as petroleum, energy and transportation which are beyond Puerto Rico's control are also on an upward trend. Consequently low profit establishments are likely to move elsewhere.

An added factor is the general future outlook for these three industries United States Industrial Outlook 1977, published by the United States

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*Alternative calculation was made taking into consideration that in some subsectors of the industries average hourly earnings were lower than the minimum wage of $2.30. The differences between these wages and their corresponding statutory minimum wage were weighted by the number of the workers and a weighted average was calculated. The results were extremely close to the simple average.

Department of Commerce, views the future of these industries as not too bright. True enough, they are a small fraction of total manufacturing activities in the mainland, but they are the backbone of manufacturing in Puerto Rico. Minimum wage hikes coupled with a somewhat somber outlook for the future, make these industries all the more vulnerable to cost hikes.

There should be no misunderstanding. The argument is not for perpetual low wages, but it is directed to maintaining the comparative advantage of Puerto Rico, and, among others, to not increasing an already very high unemployment rate. It is our learned opinion that a global revision of minimum wage is likely to cause Puerto Rico more harm than good.

As we expressed you when we visited Washington, we strongly believe that Puerto Rico should be excluded from the 1977 amendments.

We would like to have the opportunity to discuss our position with you, as there are other problems, specifically the industry review committees, which are not mentioned in your proposal.

Cordially,

Héctor Jiménez Juarbe

Encls.

NOTE

All the figures in this report are obtained from:

1. Puerto Rico Department of Labor, Census of Manufacturing Industries of Puerto Rico, October 1976.

2. United States Department of Commerce, United States Industrial Outlook 1977, Washington, D.C. January 1977.

3. United States Department of Labor, Wage and Hour Division: The Apparel Industry in Puerto Rico, 1975, The Tobacco Manufacturers Industry in Puerto Rico 1976, The Textile Mills Products Industry in Puerto Rico, 1976.

TABLE 1

Resident Commissioner Proposal on Amendments to the Fair Labor Standards Act

Selected Minimum Wage Levels Currently Existing in Manufacturing in Puerto Rico. ($) (1)	Likely Aver. Wage[a] ($) (2)	Likely Av. PR Wage -- Av.US Wage[b] (3)	Min. Wage[b] ($) (4)	1977 Likely P.R. Aver. Wage[a] ($) (5)	1977 Likely PR aver. Wage -- Av.US Wage[b] (6)	1977 Min. Wage[c] ($) (7)	1978 Likely PR aver. Wage[a] ($) (8)	1978 Likely PR av. Wage -- US av. Wage[b] (9)	1978 Min. Wage[c] ($) (10)	1979 Likely P.R. Aver. Wage[a] ($) (11)	1979 Likely PR Av. Wage -- Av.US Wage[a] (12)	Annual Increase in Puerto Rico Average Wage: 1977 Current Situation (13)	1978/77 % (14)	1979/78 (15)
1.65	2.06	.41	1.90	2.38	.48	2.15	2.69	.49	2.45	3.06	.52	15.2	13.1	13.8
1.70	2.13	.43	1.95	2.44	.49	2.20	2.75	.50	2.50	3.12	.53	14.7	12.8	13.5
1.90	2.38	.48	2.15	2.69	.54	2.45	3.06	.56	2.70	3.38	.58	13.1	13.8	10.5
1.95	2.44	.49	2.20	2.75	.55	2.50	3.12	.57	2.75	3.44	.59	12.8	13.5	10.3
1.99	2.49	.50	2.24	2.80	.56	2.54	3.18	.58	2.84	3.55	.61	12.5	13.5	11.6
2.00	2.50	.50	2.30	2.88	.58	2.60	3.25	.60	2.90	3.63	.62	15.2	12.8	11.5
2.05	2.56	.51	2.35	2.94	.59	2.65	3.31	.61	2.95	3.69	.63	14.6	12.6	11.5
2.10	2.63	.53	2.40	3.00	.60	2.70	3.38	.62	3.00	3.75	.64	14.3	12.5	10.9
2.15	2.69	.54	2.45	3.06	.61	2.75	3.44	.63	3.05	3.81	.68	14.0	12.1	10.8
2.20	2.75	.55	2.50	3.13	.63	2.80	3.50	.64	3.10	3.88	.66	13.6	12.0	10.9
2.25	2.81	.56	2.55	3.19	.64	2.85	3.56	.65	3.14	3.93	.67	13.5	11.7	10.7
2.29	2.86	.57	2.59	3.24	.65	2.89	3.61	.66	3.19	3.99	.68	13.3	11.4	10.5
2.30	2.88	.58	2.65	3.31	.66	3.00	3.75	.69	3.21	4.01	.69	15.0	13.3	7.0

a/ Minimum wage multiplied by a factor of 1.25
b/ 1977: $5.00; 1978 : $5.46; 1979 : $5.84
c/ Plus $.25 for minimums up to $1.99; plus $.30 for minimums between $2.00 and $2.29.

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TABLE 2

Estimated Yearly Increases in Average Earnings Under the Three Proposed Amendments to The Fair Labor Standards Act.

	Rep. Dent			White House			Res. Commissioner		
	1977 Current Situation	1978/ 77	1979/ 78	1977 Current Situation	1978/ 77	1979/ 78	1977 Current Situation	1978/ 77	1979/ 78
Average increase in average hourly earnings corresponding to minimum wage levels of									
$1.65 - $2.29	46.2	5.3	9.1	19.2	9.1	7.0	13.9	12.6	10.7
$2.30 +	23.8	5.3	9.1	8.7	9.1	7.0	15.0	13.3	7.0
Weighted increase	26.2	5.3	9.1	10.8	9.1	7.0	14.8	13.2	7.9

Note: The estimates are based on Table 1.
The weighted increase is estimated with the assumption that 20% of the wage earners had average earnings less than $2.30 an hour and 80% had average hourly earnings of $2.30 or more.

Dent Bill: Minimum wage 1977 - $2.85
1978 - $3.00 (60% of national average manufacturing wage of $5.00)
1979 - $3.28 (60% of national average manufacturing wage of $5.46. This average differs from the one used in Table 1; but it was the one implicitly assumed by Mr. Corrada del Río in his letter of March 3, 1977).

White House: Minimum wage 1977 - $2.50
1978 - $2.73 (50% of national average manufacturing wage, as reported in San Juan Star of 4/13/77)
1979 - $2.92 (50% of national average manufacturing wage, as reported in San Juan Star of 4/13/77)

PLEASE NOTE: There seems to be a discrepancy in the reporting of the national average manufacturing wage.

TABLE 3

Changes in the Weekly Wage Bill in three Industries
Tobacco, Textile and Apparel

Industry	Current Ave.wage	June/July 1977 Likely Ave.wage	June/July 1977 Increase in weekly wage bill($)	1978 Likely Ave.wage($)	1978 Increase in weekly wage bill($)	1979 Likely Ave.wage($)	1979 Increase in weekly wage bill($)
Tobacco	2.41	2.77	60,984	3.14	61,709	3.39	41,807
Textile	2.36	2.71	46,836	3.07	47,398	3.31	32,111
Apparel	2.34	2.69	428,016	3.05	433,152	3.29	293,454

Note:

1. The weekly wage bill is calculated on the assumption that employment is unchanged.
2. All dollar values are in 1976 dollars
3. Wage bill -- Average weekly wage x production workers.

Source:

Puerto Rico Department of Labor, Census of Manufacturing Industries of Puerto Rico, Oct. 1976.

The CHAIRMAN. Was the Little firm retained by you to do this?

Mr. MORALES. No; it was retained by the Government.

The CHAIRMAN. I do applaud your recognition that it is morally and humanistically wrong to use low wages as the competitive factor. You show a high regard for humanity and we certainly applaud that.

Mr. MORALES. Thank you. And if there is anything else you might need in your deliberations, we will be more than glad to be of assistance to you.

The CHAIRMAN. Thank you.

Senator JAVITS. I would like to join the chairman on behalf of the minority in deep appreciation for the views you hold which are traditionally American, that prosperity comes from productivity, intelligence, automation, and machinery and doesn't come from the backs of overburdened workers. We certainly appreciate that.

At the same time, I realize Puerto Rico's problems and I would like to ask you a question which is partly relevant and partly not germane to this particular issue but very germane to Puerto Rico. We have had testimony before us in the Foreign Relations Committee by one of our distinguished Members who alleges that Puerto Rico is the example to show that the introduction of private enterprise capital in a less developed country does not produce a better economy. He considers Puerto Rico to be the prime example of where private capital was attracted to a less developed economy and yet, that economy has progressed up to a point and then retrograded so that it now has a vast unemployment quotient.

Would you care to comment?

Mr. MORALES. I don't think we have gone back, sir. When you talk about Puerto Rico, one thing that you should consider is we have one of the highest population densities in the world. We have 970 persons per square mile. We have 3.3 million people in Puerto Rico and we have 3,400 square miles. And that population is growing fast both from natural growth and from the return migration that we are having.

But, perhaps we have someone who is Puerto Rican by the name of Hubert Barton who has seen this transformation occur in Puerto Rico. I think he would be one of the most qualified persons in the island to answer that question, Senator.

Mr. BARTON. I think, Senator Javits, that the current recession in Puerto Rico should not be used to indicate any failure of the general development program. This is the first time employment has ever declined in Puerto Rico since the development program started, and this decline is due primarily to two factors; the very sharp increase in the price of petroleum which affects us far more than it does the States in general because we are entirely dependent on foreign oil for all our energy resources. We have a tiny bit of hydro, that's all.

This increased cost of petroleum affected our whole cost of operations, including cost of the fuel oil used in transportation and so forth.

The second factor was the timing of this, coming along with a resurgence of competition in the Far East in precisely the industries where we had the largest employment, so that we have our recession still continuing. It is not something that arose out of the concept of private investment in the economy at all. It arose out of the concept

of OPEC control of the price of our energy and of free opening up of trade even further to the countries with very low wages with which we compete.

Senator JAVITS. Is any organized way being started in Puerto Rico to see what can be done about this? After all, a 22-percent rate of unemployment is just beyond belief and the large proportion of people are on food stamps. In other words, it is not only the unemployment, it is the working poor also, so you have a massive problem now. Is there any organized effort to ascertain what the problems are and how to adapt to them? In other words, is there any effort now to find some other "operation bootstrap" which will deal with Puerto Rico's very deep economic problems?

Mr. BARTON. There is one major thrust in the development program. There is a joint venture study going on now in Venezuela that looks to the establishment of the steel rolling mill using Venezuelan iron ore and steel billets which are the cheapest in the world.

Our basic problem has been that by importing our raw materials from a high-cost source and then having to pay transportation again on our finished goods we were a high-cost operator. This approach to trying to base our industry more strongly on low-priced, nearby raw materials can greatly improve, I think, our competitive position with the rest of the world.

Senator JAVITS. Don't you think that some organized effort should be made by the United States in association with the local government to look over Puerto Rico's total economic situation and see what must be the new orientation for it as "operation bootstrap" has obviously used itself up? That goes for the taxes, the lower wage rates, the new manufacturing, and so on.

As you may know, I have had a very long-standing interest in Puerto Rico. I was a member of the first government commission. Frankly, I am worried about Puerto Rico, both as an example of American government and in and of itself. There are well over 3 million people there and we have big connections with Puerto Rico from New York. As you talk it just struck me, and I think our chairman put his finger on it, you are showing a wonderful strain of Americanism. I wonder whether you can afford it in asking only for a deferment of 1 year on the higher minimum wage for Puerto Rico. We approve of that and, as the Chair said, we applaud and I join in applauding. But, it raised in my mind the question, what about Puerto Rico.

This is a very serious thing. What are we to do about it? I know your Governor very well and I know your situation pretty well. And I don't want to engage us in a long economic investigation at this hearing. What you have said and what you have testified to is adequate for the minimum wage question. But I would certainly invite the chamber of commerce—that is whom you represent, isn't it?

Mr. MORALES. Yes, sir.

Senator JAVITS. I certainly invite the chamber of commerce in association with the labor people in Puerto Rico to think through this suggestion I have made. I will write the Governor. Perhaps Senator Williams will join me as we both have a deep interest. And I would suggest that he think through on a broader horizon the problems of his State—that is what it really is—and let us know what, if anything,

he thinks we ought to do here to take a broader look at Puerto Rico's unique problems instead of passing it once over lightly.

We might do something on the minimum wage. What you asked for certainly sounds extremely reasonable. Indeed, as I say, I am not so sure you can afford it. But, to really try to dig in and see what ought to be done about this very, very serious situation in Puerto Rico.

Dr. FAMADAS. With regard to the first part of your question, the Government in a joint effort with the executive branch of the Federal Government created a joint commission about 3½ months ago to study the situation of Puerto Rico in depth and to determine what short-term and long-term actions should be undertaken to pull ourselves out of the oppressive economic situation. So, there are some steps being taken.

Senator JAVITS. Good, that is what I was reaching for—has something been done. I am glad to hear that. We will take a look at what you are doing and see if it can be forwarded, promoted or in some other way helped.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you. I am glad that all of this was raised and discussed. We will look forward to what was generated there and how we might be able to cooperate here.

I just missed the relationship to your economy and how you see if its beneficial effects, this possible arrangement with Venezuela—you mentioned one specific, the rolling mill over there, and steel ingots that come through at the lowest cost. Is this a critical key product in manufacturing and the economy of Puerto Rico, rolled steel?

Mr. BARTON. Yes, sir. We have estimated that the structure of industry that we have now is approximately one-third the base of a full industrial structure of a developed country. What we lack mainly is the industries that are based on metals—steel. This is the first step to put a base under a structure that would go into appliances and a whole wide range of things which we cannot manufacture competitively at the present time.

The CHAIRMAN. Let me ask you this: Many of the major pharmaceutical concerns have come to Puerto Rico. What is their status now in terms of production and employment? Are they stable or increasing their production?

Mr. BARTON. Increasing.

The CHAIRMAN. Was a good part of this predicated on the 10-year tax plan?

Mr. BARTON. Yes.

The CHAIRMAN. As we run out of the 10-year period it presents a problem I suppose?

Mr. BARTON. Although we normally do not get closings on the expiration of a grant period. They usually stay in business.

Mr. MORALES. Especially capital intensive.

Mr. BARTON. They have a big investment.

The CHAIRMAN. I see. How is that gaged in terms of capital intensive pharmaceuticals?

Mr. BARTON. Quite capital intensive.

Senator JAVITS. We have a little question we would like to put to you. Senator Williams and I have received a letter from the Commissioner of Puerto Rico stating the government's position. That

position differs somewhat from your position in the sense that those who are now getting $2.30 an hour—and that includes most people in Puerto Rico—would, according to this letter, be ready to go to the $2.65, or whatever figure we fix, as of January 1, 1978.

You, on the other hand, want January 1, 1979. Then, the local government wishes, or the Commonwealth government I should say, wishes step increases for those who are under $2.30, gradually bringing them up to parity in different years. I assume you are aware of this government position?

Mr. MORALES. Yes, sir.

Senator JAVITS. Have you made any endeavor to reconcile the government's position with your position?

Mr. MORALES. Yes, sir. You see, the government's position, the Romero Barcelo administration, was elected in November and they have a commitment with the people of Puerto Rico who elected them. One of the campaign promises was to bring the Federal minimum into Puerto Rico.

As is very clear in our statement, we are not against working toward parity. It is just that some of those industries which recently came up to $2.30 based on these automatic increases and then another 35-cent increase in January will bring them up to 40- to 50-cent-per-hour increase in 7 months. We know their escalation clause and how they are thinking of bringing it and we are advocating for a postponement of that for 1 full year.

Senator JAVITS. Do you have trade unions in Puerto Rico organized?

Dr. FAMADAS. There is a very strong labor union movement.

Senator JAVITS. A very strong labor union movement. That isn't very well represented in your organization, is it?

Dr. FAMADAS. No, sir.

Senator JAVITS. So we don't know what they think.

Mr. MORALES. We can tell you what they have been saying in the newspapers.

Senator JAVITS. I don't think that would be fair. We can read the newspapers, too.

Mr. MORALES. This presentation we made to you we made public the day before yesterday in San Juan, even though we have been working on it for quite a number of weeks. What the first responses have been we are not aware of yet. They are going to have to sit down and take a look and it is going to be interesting when we get back to see what kind of comments can be made on this.

The CHAIRMAN. We will have a period here before we mark up and I am sure communications will be exchanged and we will understand the full attitude and thinking from Puerto Rico.

Mr. MORALES. Thank you very much.

[The prepared statement of Mr. Morales follows:]

ADJUSTING FEDERAL MINIMUM WAGE LEGISLATION TO CURRENT CONDITIONS IN PUERTO RICO

STATEMENT BY
MANUEL MORALES, JR.

PRESIDENT,
CHAMBER OF COMMERCE OF PUERTO RICO
before the
LABOR SUBCOMMITTEE OF THE
SENATE COMMITTEE ON HUMAN RESOURCES

Washington, D.C.
August 5, 1977

ADJUSTING FEDERAL MINIMUM WAGE LEGISLATION TO CURRENT CONDITIONS IN PUERTO RICO

It has never made sense to apply the same minimum wage in Puerto Rico that is mandatory within the United States. This was recognized by the Congress two years after enactment of the Fair Labor Standards Act of 1938 when provisions for differential rates were legislated for Puerto Rico. Parity may make sense some time in the future. I doubt that any of us can now say with assurance when that will be. What we can hope to do now is to seek workable relationships between the minimum wage in the United States and minimum wages in Puerto Rico that will continue to make sense until the time comes when the two rates can be made identical.

The Fair Labor Standards Act was not intended to make the United States internationally competitive or to create jobs. Its purpose was an approximate kind of social justice. When the Act was passed nearly forty years ago, the statutory minimum was set at 25¢ an hour to go to 30¢ the following year. It seems to us no accident that the legislated minimum for 1939 was one-half of the 60¢ average level of earnings that prevailed when the bill was being debated in the Congress.

The current bill which, for the first time, formally links the minimum wage to average straight-time earnings of manufacturing production workers, seems to us to embody a social and humanistic principle to which we can all subscribe. Nobody should be paid less than half the wage that most of his peers are being paid.

Forty years of experience with the Fair Labor Standards Act also demonstrates that its social purpose, which we all endorse, is economically viable. By sacrificing a tolerable amount in total income from international trade and of employment in marginal jobs, the incomes of the lowest paid workers have been increased along with those of the rest of the working population. There has been no more of the gross exploitation of the wage earning population that the Act was designed to abolish.

By formally linking the *minimum wage* to *average earnings*, it seems to us that the Congress is doing more than merely ratifying the long-continued relationship between the two. It is emphasizing the social and humanistic purpose of the Act and, hopefully, institutionalizing a relationship that will diminish the periodic jockeying of management, labor and the Congress that has produced the sporadic increases in the minimums that have been legislated in the past. For nearly forty years these revisions

of the Act have been a divisive issue that has harmed labor-management relations and demanded an inordinate amount of the time, energy and concern of the Congress. The linkage or indexing principle of the proposed legislation should eliminate much of this conflict and waste.

Moreover, with straight-time earnings of production workers in even the lowest-wage U.S. industries now averaging over $3.50 an hour, we believe that the wage increases implicit in the $2.65 minimum will have only a minor effect on total payroll and no significant inflationary impact. However, its adverse effect on the employment of young people, especially those in the Hispanic and black minorities, has been demonstrated by recent studies of Brimmer & Company, Gramlich and others. We join with those who advocate a youth differential in the Federal minimum wage or, as an alternative, government subsidy of wage payments to these disadvantaged groups.

We also urge the establishment of Federally supported programs for the creation of meaningful, productive jobs, especially permanent jobs in the private sector. An abundant production of real goods and services can support high and rising wages and, at the same time, help to check inflation.

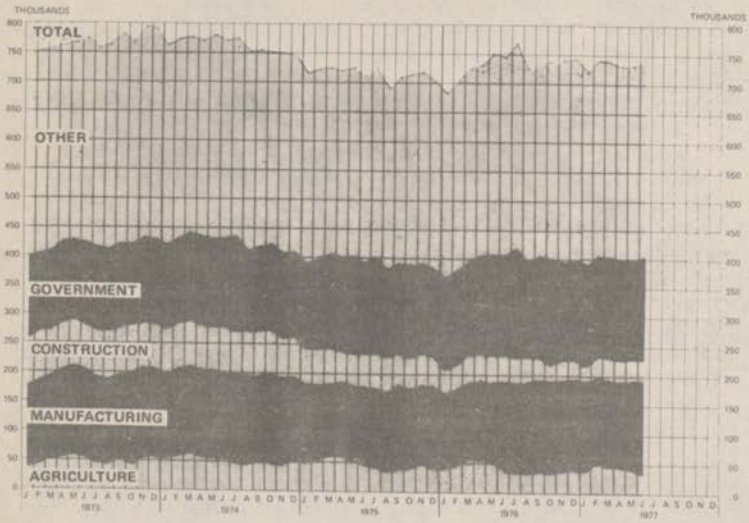
2 Mr. Chairman, while we endorse the indexing provisions of the present bill and subscribe to the principle of parity for Puerto Rico the moment it is economically feasible, we do not concur with the provisions for Puerto Rico being proposed for January 1, 1978. Their impact on many sectors of agriculture, manufacturing and commerce and in some service industries would be severe and the resulting loss of jobs would be exceptionally damaging under the present circumstances of the Island's economy.

The Labor Department data shown on the accompanying chart indicate part of our problem. After a brief and partial recovery in the first half of last year, total employment has stagnated at a level considerably below the plateau reached in 1973-74. Among the basic industries, both agriculture and manufacturing are still below previous levels and employment in construction is only about half what it was four years ago. Puerto Rico has not shared in the strong economic recovery that has pushed employment in the States over the 90 million mark.

Possibly even more serious—with a stagnant economy at a depressed level of employment, our population has been increasing with unprecedented rapidity. After years of outward migration from the Island, the flow reversed itself in 1972. In six short years, the population has jumped by over half a million persons. About half the increase has been "natural" population growth.

The other half, largely people of working age, are returned migrants and immigrants from foreign countries, mainly Cuba and the Dominican Republic.

RECENT CHANGES IN EMPLOYMENT



Job losses and this population explosion have pushed unemployment in Puerto Rico up to the highest level ever recorded. In June, 22% of the labor force was out of work. There were 213,000 poeple actively looking for jobs—a number considerably exceeding that of the remaining job holders in agriculture and manufacturing. Recent surveys by our Department of Labor show that many more people would have been looking for work if they thought they could find it.

Mr. Chairman, Gentlemen, I must somehow try to convey to you the gross difference between the strong recovery here in the States and the continued depressed conditions in Puerto Rico. Perhaps I can best express it by a single comparison. Out of every hundred persons in Puerto Rico, only 23 have jobs. In the States, 42 out of every hundred are at work and they have much more productive jobs. We are deeply concerned that an abrupt increase in minimum wages will further aggravate our precarious economic situation.

The focal point of our concern is that the proposed increases in minimum wages in Puerto Rico will trigger further job losses in the six groups of manufacturing industries that are listed at the top of the accompanying table.

WAGES AND EMPLOYMENT OF PRODUCTION WORKERS

Average Earnings Below 1968 Statutory Minimum	Average Hourly Earnings		Employment	
	1968	1976	1968	1976
Tobacco manufacturers	$1.34	$2.41	6,696	4,238
Textile mill products	1.50	2.36	7,583	3,973
Apparel	1.47	2.34	38,168	34,743
Leather, leather products	1.31	2.18	10,692	4,673
Wood products, furniture	1,41	2.40	3,783	2,907
Miscellaneous	1.46	2.78	3,507	2,741
Average or Total	1.43	2.36	70,429	53,275
Average Earnings Above 1968 Statutory Minimum				
Food, beverages	1.63	2.86	13,167	16,737
Paper, printing	1.98	3.37	2,479	2,772
Chemicals	1.98	3.90	3,074	8,362
Petroleum, rubber, plastics	1.93	3.93	4,631	4,526
Stone, clay, glass	1.89	3.15	5,214	4,077
Metal products	1,92	3.20	3,839	4,437
Machinery, transport. equip.	2.04	3.48	1,536	3,588
Electrical mach. & equip.	1.78	3.05	8,012	11,624
Scientific instruments	1.73	3.05	3,432	9,227
Average or Total	1.81	3.22	45,384	65,350
ALL INDUSTRIES	1.59	2.86	115,813	118,625

Source: Census of Manufacturing Industries, Puerto Rico Department of Labor, October data.
Note: Statutory minimum wage was $1.60 an hour in 1968.

In 1968, average hourly earnings in these six industry groups were well below the $1.60 statutory minimum which was then in force. By October, 1976, earnings in all but the leather group had been pushed above the $2.30 minimum which then prevailed. In the process, over 17,000 jobs were lost. For us, this has been a major calamity.

In the higher wage industries, earnings have been generally well above the minimum. Wage rates have increased even more rapidly than in the six lower wage industry groups—but these increases have been largely determined by market forces and a substantial employment gain was registered during the eight-year period.

Our concern is focused on the 53,000 jobs still remaining in the six low-wage industry groups shown at the top of the table and, especially, on textiles, apparel and leather. These industry groups, along with a few other industries like rubber footwear included in the totals for higher wage industry groups, are caught in a vise. One jaw of the vise is persistent escalation of the minimum wages that largely determine their labor costs. The other jaw is foreign competition.

In 1968, Puerto Rico still supplied 30% of total U.S. apparel imports compared with 25% coming from Hong Kong, Taiwan and Korea. Six years later, Puerto Rico's share had been about cut in half, to 16%, while the share of the three low-wage, far-eastern countries had more than doubled, to 51%.

The Commonwealth Government has already undertaken measures to alleviate the cost squeeze on some of these low-wage industries. Tax exemption periods have been extended for five additional years for the long-established textile and apparel plants whose grants were about to expire. Large cash grants have also been made to cigar manufacturers conditioned on their maintaining their operations in Puerto Rico. In spite of these strenuous measures by the Commonwealth, employment has continued to decline.

Existing provisions of the Fair Labor Standard Act have undoubtedly contributed to the stagnation of employment that has dominated the economic scene in Puerto Rico for the past 12 months. In the States, there have been few increases in minimum wages since 1975 and none outside agriculture since last December. In Puerto Rico, however, automatic increases and wage orders have been continuous for industries below the statutory minimum. Their incidence has been especially heavy within the six manufacturing groups shown on the table.

This year, for example, there have already been minimum wage increases of 15-18¢ an hour in the tobacco group, 20-30¢ in textiles, 15-21¢ in apparel, 15¢ in leather, 20¢ in furniture and 25 to 40¢ in plastics. This is the record only to the first of May and additional industry committee hearings are already scheduled for industries which have not yet reached parity in spite of such sizable recent increases.

Moreover, between October 1976 (the Census data shown in the table) and April (the most recent Labor Department data available) a thousand more jobs have been lost in these low wage industry groups. Still more recently, the Economic Development Administration (Fomento) has reported that, during May and June, factory openings accounted for 82 new jobs while 718 jobs were lost in plants that closed.

Admittedly, our concern for the future of these six low-wage industry groups would be less if there were other job opportunities opening up for the workers who are losing their jobs. As it is, the continued stagnation of the economy and the influx of job seekers from outside the Island makes the retention of existing jobs a critical matter. We believe that the Commonwealth Government, we hope with financial support from the U.S. Economic Development Administration, must undertake a selective wage subsidy program, in addition to the other measures being used to retain these factory jobs. We also hope that Federal employment programs will materialize to create new jobs in the private sector.

In the meantime, we urge that this Committee give full consideration to deferring until January 1, 1979 the applicability of the $2.65 minimum wage to Puerto Rico.

6

Senator JAVITS. Thank you.

The CHAIRMAN. We now turn to an organization that is time honored here, the American Farm Bureau Federation, Mr. John C. Datt, director of the Washington office.

Senator JAVITS. Mr. Chairman, may I explain that I am called to another committee and I will be right back.

The CHAIRMAN. We will continue in your absence.

STATEMENT OF JOHN C. DATT, DIRECTOR, WASHINGTON OFFICE, AMERICAN FARM BUREAU FEDERATION, ACCOMPANIED BY C. H. FIELDS, ASSISTANT DIRECTOR, WASHINGTON OFFICE FOR NATIONAL AFFAIRS

Mr. DATT. My name is John C. Datt. I am the director of the Washington office for the American Farm Bureau. I have with me Mr. C. R. Fields, who is the assistant director of the Washington office for national affairs.

The Farm Bureau is the largest general farm organization in the United States, with a membership of 2,676,259 families in 49 States and Puerto Rico. It is a voluntary non-Government organization representing farmers and ranchers who produce virtually every agricultural commodity produced on a commercial basis in this country.

Many of our members are directly affected by the minimum wage and other provisions of the Fair Labor Standards Act. It needs to be pointed out, however, that any farmer who employs one or more persons is indirectly affected by this legislation since the minimum wage tends to be the floor under which no one will work whether the employer is required to pay the minimum or not. Under any measurement, however, we represent one of the largest groups of employers affected by the act.

At the most recent annual meeting of the American Farm Bureau Federation, the voting delegates of the member State farm bureaus adopted the following policy on the Fair Labor Standards Act:

> We believe that the requirements of the 1974 amendments to the Fair Labor Standards Act have contributed to unemployment, particularly among the young, minority groups, and the unskilled.
>
> We favor reconsideration of this Act in order to: (1) Increase employment opportunities; (2) Restore the right of persons under age 14 to work on farms during non-school hours and months with parental comment; (3) Reduce the allowable wage minimums for students to 50 percent of the general minimums required in the Act.
>
> We continue to support retention in the Act of: (1) The agricultural exemption from the overtime requirements; and (2) the present exemptions from the minimum wage.
>
> We urge restoration of the exemptions from overtime for those processing and handling operations having unusual seasonal demands for labor.
>
> We oppose any increases in the minimum wage.

Reconsideration of the Federal minimum wage. We believe it is time for the new administration and the Congress to apply zero-base budgeting principles to the minimum wage. We need to reexamine the need and desirability for such a law in the light of modern conditions of living and employment to study whether the act is any longer achieving its intended purpose and to determine whether there may be a better system of insuring the maintenance of the minimum standard

of living necessary for health, efficiency and general welfare of the workers.

We farmers are not experts in the field of labor economics. However, we are experts, in fact the world's leading experts, in the field of producing an abundance of food and fiber. We do this at the lowest per unit cost of any farmers in the world. We have achieved this in large part through the development and implementation of labor efficiency on our farms.

We farmers share with other citizens concern about fiscal mismanagement on the part of Government with resulting inflation, large-scale unemployment and the growth of public assistance programs that have too often been abused.

We are not the only group in this country lacking in hard facts regarding the actual economic and social effects of the minimum wage. Abraham Weiss, Assistant Secretary of Labor for Policy, Evaluation and Research, writing in the March 1976 edition of the Labor Law Journal, had this to say:

> Research in the fields of minimum wage and the experience of the past changes in the Fair Labor Standards Act still leave us with considerable uncertainty regarding the impact of higher minimum wages, not only on the economy as a whole but on specific groups of workers and on specific industries.
>
> The trade-off issue is the possible adverse impact on expanded job opportunities for low skill workers and inflationary cost pressures for the economy. In human terms, a higher minimum wage designed to benefit the working poor may produce opposite results if such higher minimum leads to their unemployment.

We believe the Congress should call into service the best minds available in the field of economics and social welfare and make a careful and unbiased examination of the Federal minimum wage before proceeding to consider any changes in the act.

We believe that enactment of S. 1871 would produce these results:

(1) Because increases in the minimum wage have an effect on the entire scale of wages, there would be a ripple effect on all wages—increases would not be confined to workers who are not receiving the minimum wage.

(2) Employers, including farmers, would be forced to place greater emphasis on the efficiency of labor in their operations in order to offset, in whole or in part, the higher wage costs, since the value of labor is based on productivity—that is, the worth or value of the service performed.

(3) There would be a loss of jobs, both in terms of people too discouraged to even try to seek employment and in terms of jobs eliminated or not created.

(4) Employers would substitute skilled labor and increased investments in capital for low-skilled labor, which would be priced above its worth in the marketplace.

(5) There would be an increase in discrimination against the young, the unskilled and older workers, women and members of minority groups.

(6) The effect on inflationary pressures would be significant. Annual adjustment based on the index of wages paid in manufacturing, which are a part of this bill, would build upon themselves. This indexing could not help but have an inflationary impact.

Youth unemployment. Twenty years ago, the teenage unemployment rate stood at 9.7 percent. The figure now stands at twice that

level. For minority teenagers in the central cities, it is closer to four times that level.

Four years ago, Andrew F. Brimmer, a governor of the Federal Reserve Board was quoted in the Washington Post as saying that the severe youth unemployment problem "is being aggravated by the Federally imposed minimum wage legislation." He advocated permitting employers to pay beginning workers less than the minimum wage.

Seven years ago, the Department of Labor issued a 189-page booklet titled Youth Unemployment and Minimum Wages. The booklet stated that "increases in the level and coverage of the Federal minimum wage may have contributed to the employment problems of teenagers."

This bill would drive from the labor market the least educated, least literate and least skilled of workers, and force more of them into the indignity of a life on the public dole.

Idleness breeds delinquency and crime and produces a growing group of people in our society who are bitter and who turn to drugs, violence and totalitarian politics. It would be better if these people were given the opportunity to be gainfully and productively employed in the private sector of the economy.

Our concluding comments and summary. We are opposed to any change in the statutory minimum wage at this time.

Under the present law the minimum wage for agricultural workers will increase to $2.30 on January 1, 1978. The President's proposal, as contained in S. 1871, to increase the minimum to $2.65 on January 1, 1978 represents an increase of 45 cents or about 20 percent. In the case of labor-intensive crops, such as fruits and vegetables, the effect on prices would be felt by consumers in the food stores but the ability of farmers to pass increased costs along to consumers is limited, and this process takes longer than in most other industries.

In the meantime, many farmers will be forced out of production or forced to switch to other types of production requiring less hired labor.

We are totally opposed to the concept of indexing the minimum wage, since it is certain to be inflationary. Congress should not abdicate its responsibility to determine, from time to time, what the minimum should be, if indeed, there should be a Federal minimum wage.

At the very least, this bill should be amended to provide job opportunities for the young and the less skilled in our society, either by an outright exemption as provided in a number of the State minimum wage laws; by a minimum wage differential of at least 25 percent; by an exemption for seasonal jobs; or through some other means of insulating these people from the adverse effects of this legislation.

We appreciate the opportunity to present our views on this particular bill. Thank you very much.

[The prepared statement of Mr. Datt follows:]

STATEMENT OF THE AMERICAN FARM BUREAU FEDERATION
TO THE SUBCOMMITTEE ON LABOR
OF THE SENATE COMMITTEE ON HUMAN RESOURCES
WITH REGARD TO S. 1871, AMENDMENTS TO THE FAIR LABOR STANDARDS ACT

Presented by John C. Datt. Director, Washington office
August 5, 1977

Farm Bureau is the largest general farm organization in the United States, with a membership of 2,676,259 families in 49 states and Puerto Rico. It is a voluntary, nongovernment organization, representing farmers and ranchers who produce virtually every agricultural commodity produced on a commercial basis in this country. Many of our members are directly affected by the minimum wage and other provisions of the Fair Labor Standards Act. It needs to be pointed out, however, that any farmer who employs one or more persons is indirectly affected by this legislation. since the minimum wage tends to be the floor under which no one will work whether the employer is required to pay the federal minimum or not. Under any measurement, however, we represent one of the largest groups of employers affected by the Act.

At the most recent annual meeting of the American Farm Bureau Federation, the voting delegates of the member State Farm Bureaus adopted the following policy on the Fair Labor Standards Act:

> "We believe that the requirements of the 1974 amendments to the Fair Labor Standards Act have contributed to unemployment--particularly among the young, minority groups, and the unskilled.
>
> "We favor reconsideration of this Act in order to: (1) Increase employment opportunities. (2) Restore the right of persons under age 14 to work on farms during non-school hours and months with parental consent. (3) Reduce the allowable wage minimums for students to 50 percent of the general minimums required in the Act.
>
> "We continue to support retention in the Act of: (1) The agricultural exemption from the overtime requirements. (2) The present exemptions from the minimum wage.
>
> "We urge restoration of the exemptions from overtime for those processing and handling operations having unusual seasonal demands for labor.
>
> "We oppose any increases in the minimum wage."

Reconsideration of the Federal Minimum Wage

We believe it is time for the new Administration and the Congress to apply zero-base budgeting principles to the minimum wage. We need to reexamine the need and desirability for such a law in the light of modern conditions of living and employment; to study whether the Act is any longer achieving its intended purpose; and to determine whether there may be a better system of ensuring "the maintenance of the minimum standard of living necessary for health, efficiency, and general welfare of workers..."

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We farmers are not experts in the field of labor economics. However, we are experts, in fact the world's leading experts, in the field of producing an abundance of food and fiber. We do this at the lowest per unit cost of any farmers in the world. We have achieved this in large part through the development and implementation of labor efficiency on our farms. We farmers share with other citizens concern about fiscal mismanagement on the part of government with resulting inflation, large-scale unemployment, and the growth of public assistance programs that have too often been abused.

We are not the only group in this country lacking in hard facts regarding the actual economic and social effects of the minimum wage. Abraham Weiss, Assistant Secretary of Labor for Policy, Evaluation and Research, writing in the March, 1976, edition of the LABOR LAW JOURNAL, had this to say: "Research in the field of minimum wage and the experience of past changes in the Fair Labor Standards Act still leave us with considerable uncertainty regarding the impact of higher minimum wages, not only on the economy as a whole but on specific groups of workers and on specific industries....The 'trade-off' issue is the possible adverse impact on expanded job opportunities for low skill workers and inflationary cost pressures for the economy.... In human terms, a higher minimum wage designed to benefit the working poor may produce opposite results if such higher minimum leads to their unemployment...."

We believe the Congress should call into service the best minds available in the field of economics and social welfare and make a careful and unbiased examination of the federal minimum wage before proceeding to consider any changes in the Act.

We believe that enactment of S. 1871 would produce these results:

(1) Because increases in the minimum wage have an effect on the entire scale of wages, there would be ripple effect on all wages--increases would not be confined to workers who are now receiving the minimum wage.

(2) Employers, including farmers, would be forced to place greater emphasis on the efficiency of labor in their operations in order to offset, in whole or in part, the higher wage costs, since the value of labor is based on productivity--that is, the worth or value of the service performed.

(3) There would be a loss of jobs, both in terms of people too discouraged to even try to seek employment and in terms of jobs eliminated or not created.

(4) Employers would substitute skilled labor and increased investments in capital for low-skilled labor, which would be priced above its worth in the marketplace.

(5) There would be an increase in discrimination against the young, the unskilled, and older workers, women, and members of minority groups.

(6) The effect on inflationary pressures would be significant. Annual adjustments based on the index of wages paid in manufacturing, which are a part of this bill, would build upon themselves. This indexing could not help but have an inflationary impact.

Youth Unemployment

Twenty years ago, the teenage unemployment rate stood at 9.7 percent. The figure now stands at twice that level. For minority teenagers in the central cities, it is closer to four times that level.

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We appreciate this opportunity to present our views.

The CHAIRMAN. Thank you very much.

I wouldn't expect it, but I wonder if your statisticians and economists in the Farm Bureau have given you any percentage of farmworkers who are covered in employment and not covered by the minimum wage.

Mr. DATT. I am going to ask Mr. Fields to comment on that.

The CHAIRMAN. I will say we asked the Department for that. I have the numbers employed and I am going to include some tables in the record from the Department of Labor, Employment Standards Administration, that show the workers on all farms, the numbers on all farms, those covered. We just haven't made the mathematical computations here on percentages. I just wonder if you have it right off the top. This is broken into all workers—workers under 14, workers 14 and 15 years. I think this is a convenient place to include them in the record at the end of this presentation from the Farm Bureau.

Mr. FIELDS. Senator, I might comment it is very easy to misunderstand some of those statistics. You have to know whether they are talking about the total number of persons involved and since a larger percentage of the farm work is seasonal and temporary work, as you know, it is better to talk about the man-days of work. I don't know whether their figures show man-days or not.

The CHAIRMAN. One of the charts is broken that way in terms of those employed on farms of more than 500 man-days.

Mr. FIELDS. I mean, how many man-days are covered by the minimum wage act?

The CHAIRMAN. I think this could be bigger than these charts. I am not sure.

Mr. FIELDS. We find quite a lack of information. Frankly, we are right now involved with a year-long study. One of the problems we have in the Farm Bureau is, there is quite a dearth of good factual information. Our best estimate is that, of the commercial farms, somewhere around 300 or 350,000 farms do employ nonfamily labor. If you take that, you will find probably around 70 percent of them are covered by the act. We think somewhere around 65 percent of the total hired farm workers—this is nonfamily—probably are now covered by the act.

Mr. DATT. One of the things we have to recognize, as we indicate in our statement, is that even though there may be a small group covered by the minimum wage, it becomes the wage scale for that particular area. Even though there is only one farmer, say, who is covered by it and his workers are covered by it, in effect, it sets the scale for that whole particular community and that particular section. Other farmers have to compete against what he is paying for his own wages.

We would be happy to work with your staff and try to figure out from those statistics just exactly what the situation is.

Mr. FIELDS. One of the things, Senator, is that some of the major agricultural States, like California, have a higher minimum wage, and cover more. They do not have one exemption. You have to look at both the Federal and State in taking the measurement of this.

The CHAIRMAN. In another area now, do you and your economists at the Bureau work out the relationship between labor costs and the retail price of farm products?

Mr. FIELDS. We try to. We do know this, Senator, that in the last 15 years, only one item of input cost in agriculture has exceeded labor in terms of increase; that is lie-in. The second highest input in increase in cost is labor. Labor on farms has been going up at the rate of about 10 percent a year.

The CHAIRMAN. That will relate to another question, the incraeses in productivity in agriculture. Do you have any measures of that? I am a layman in this area.

Mr. FIELDS. That is the only way we can continue to exist actually, that we have far exceeded nonfarm industry in terms of labor efficiency increases. We now have invested, on the average, in this country, about $70,000 capital investment per farmworker. This is the measure of what we have done in trying to mechanize technology trying to reduce the need for labor.

As you know, the total number of farm workers has gone down for years, as well as the number of farmers. However, in the last 5 years, it has remained fairly stable, the total number of hired workers. How much further we can go in reducing the need for labor is somewhat a question because we don't know yet how we can pick apples by machines, although up in New Jersey at Rutgers they are trying to grow them on trellises so they can have machines and so forth, but there still is quite a bit in the fruit and vegetable industry and some of the other segments of agriculture where we have to have quite a large number of workers.

The best estimate is now that we have about 1 million total hired workers in agriculture in this country, of which about less than 200,000 now, Senator, are migrants. The migrant work force is now only about 7 percent of the total hired labor work force in agriculture. We estimate in another 10 years it will be down less than 5 percent, but it is definitely phasing out. It will almost be a thing of the past. It is practically down to a minimum right now.

The seasonal nonmigrant work force is still considerable and represents half the total hired work force. In other words, the local seasonals.

The CHAIRMAN. You still have the day hauls from the city?

Mr. FIELDS. The day hauls. We still have students and local housewives and all those kind of people that work—casual workers. They work a few days or weeks a year locally in agriculture. We always are looking for more of them because of this tremendous seasonal demand we have in some of these agricultural commodities. That is our real problem in agriculture. We know no person can build a future for themselves and their family depending on a seasonal job. This is a problem we have in agriculture.

Frankly, we have had very little help from the Department of Labor on solving this problem. One of the things that concerns us is that we don't have a good liaison. We didn't get it under the past administration; we don't get it under this administration, so we have good input—a good exchange between agriculture and the Department of Labor on jointly trying to solve some of these problems. We wish we had a better liaison because we think jointly we could sit down and work together and solve some of these problems.

The CHAIRMAN. That is one of the most encouraging things I have ever heard coming from you, Chuck, and from the Bureau, that you

would like to find a way to cooperate. I am going to remember that the next time I see the Secretary of Labor. I am going to put this on our agenda—find ways to deal with the seasonal question.

Mr. FIELDS. We would like to meet with him and talk to him because we know he has some background in agriculture.

The CHAIRMAN. He will jump to the opportunity to communicate and work with you toward objectives.

Mr. FIELDS. Shortly, we will publish a report of a labor study committee we have had underway now for several months. We are getting an indepth look at these problems and we want to take a positive approach as much as we can.

The CHAIRMAN. Thank you very much.

We have another witness. Senator Bumpers is here to introduce the Cotton Council.

Senator BUMPERS. Thank you, Mr. Chairman.

It is always an honor, of course, to introduce any constituent to any committee of the Congress but it is an especial honor this morning to introduce to you a gentleman who is as well respected in agricultural circles in our State as any man in the State. He has been sought after for many purposes. He even served on the Arkansas Highway Comsion at one time and I can tell you, as a former Governor, that is the most prestigious position you can have down there.

But, in the National Cotton Council, he has held virtually every position. He has been president—he was president in 1975. He was chairman of the board in 1976 and, of course, he has, as I say, been extremely active. He is a cotton farmer from the delta area in northeast Arkansas. He is well-respected and I consider him a warm personal friend.

I don't know what he is going to say this morning regarding this legislation. It may be something that I would not personally agree with totally but I can assure you that it will be well-conceived and well-thought-out and presented with all the sincerity of his heart because I know that he has looked forward to this testimony. I know he has a deep and abiding interest in agriculture and the rights of farmers. I know that he is also cognizant of the traditional argument about the inflationary impacts of raising the minimum wage.

But, at the same time, I think that he would echo to a large extent the sentiments of the gentleman who just preceded him in saying that the National Cotton Council wants to take a very positive approach toward this legislation. They recognize that the minimum wage is indeed going to be increased this amount this year and I think what we are talking about is how much and what the effect of that increase is going to be.

So, again, Mr. Chairman, I ask the committee to excuse me after this introduction but I am certainly honored to introduce him and I want to personally thank you for giving him and the National Cotton Council an opportunity to be heard this morning.

The CHAIRMAN. We are grateful for your introduction of Mr. Chauncey L. Denton.

Senator BUMPERS. I forgot to tell you who he was. He is Chauncey Denton. [Laughter.]

STATEMENT OF CHAUNCEY L. DENTON, FORMER PRESIDENT AND CHAIRMAN OF THE NATIONAL COTTON COUNCIL

Mr. DENTON. Thank you, Dale. It may be best for me to leave right now.

Thank you very much, Dale. I appreciate your coming.

And, to you, Mr. Chairman, a little of this may be repetitive. He made my introduction for me. My name is Chauncey L. Denton, Jr. I am a cotton producer and run a little cotton gin on the farm, and I have lived on the same family farm since I was less than a year old.

As he indicated to you, I have had the privilege of serving as president of the National Cotton Council and as their chairman. I appear before you today for this organization.

The CHAIRMAN. My knowledge of geography has gaps. The northeast delta that Senator Bumpers mentioned—you are from the northeast delta region.

Mr. DENTON. I can identify it more easily. I am about 30 miles northwest of Memphis, Tennessee.

The CHAIRMAN. Where the Ohio River——

Mr. DENTON. No, Mississippi River. The Ohio River joins up in Kentucky up above us. We are in what we call the Mississippi River Delta there.

The CHAIRMAN. I see.

Mr. DENTON. It is right at the north end of the cotton belt.

The Cotton Council that I am representing today is the central organization of the U.S. raw cotton industry. It represents the cotton producers, the cotton ginners, the cottonseed crushers—the oil mills—the warehousemen, the merchants who buy and sell the cotton, the cooperatives and the manufacturers, or our mills, as we describe them.

I would like to begin by telling you, as Senator Bumpers indicated, that we do support a principle of fair labor standards. It comes from a very good book that we all read. The workman is worthy of his hire and he is due a fair wage commensurate with his productivity.

Of course, a standard that would eliminate jobs for workers who have the greatest need and the least opportunity could be counterproductive for jobs. Also, standards that may fuel the inflation that is one of the biggest problems we have in this country and create additional costs that must be borne either by the producer or the consumer, or both because, after all, in the final analysis the costs have to go to the consumer if the operator of any part of the cotton industry or any other business is going to survive. We believe that such increases may not be in the national interest.

Under this bill before you, Mr. Chairman, as we understand it, the minimum wage would rise from the current $2.30 an hour to $2.65 an hour effective January 1, 1978, and that is an immediate increase of about 15 percent. Effective then, January 1, 1979, the minimum would be adjusted to equal the equivalent of 52 percent of the average hourly wage in manufacturing. And, then, in 1980, it would be permanently set at 53 percent of the average hourly manufacturing wage.

Current calculations by the Department of Labor indicates to us that the minimum wage under this formula would be around $2.89 by January 1, 1979, and $3.15 by January 1, 1980. The minimum could actually be even higher depending on the actual changes in the manufacturing wages over the next 2½ years.

Our concern with this bill is very deep. We view it as a complete departure from the concept of remuneration based on productivity. We see the indexing provision as a dangerous precedent that could seriously jeopardize the jobs of workers at the lowest salary levels and which puts into motion a continual inflationary spiral and that, through the years, could wreak some havoc on our economy.

From the cotton industry's point of view—and we are a labor intensive industry from the producer all the way to the mill—it weakens our ability to compete with the large highly mechanized manmade fiber companies and our fiber producing competitors overseas, both the natural and the man-made.

At the council's annual meeting last February our voting delegates unanimously adopted the following resolution:

> The Council recognizes that among the Nation's most urgent problems is the need to curb inflation and maximize employment, and that inordinate increases in the minimum wage and extension of coverage by the legislative branches of government aggravate both these problems and result in higher costs for the cotton industry, thus jeopardizing its ability to compete.

Cotton farms, cotton gins, cottonseed oil mills, and cotton warehouses depend to a large extent on relatively unskilled labor. In view of our industry's short intensive harvest period, a large number of these workers are employed seasonally. In many instances, they are provided housing year round. The majority of workers that are not equipped by training to seek gainful employment elsewhere. Their productivity in most instances is limited and many would, of necessity, be replaced if the wage structure requires wages over and above their economic contribution.

One example that was developed, although not specifically alluded to by my predecessor here is this: There is still a lot of hand labor involved in the production of cotton. The minimum wage has forced the farmers into the use of chemicals more and more and to less use of hand labor because laborers could not make the economic contribution so that we could afford to use as much hand labor as we used to.

Obviously, the provisions of this legislation could have a significant impact on the total available jobs for these workers and on the cost of producing and marketing cotton. It could prove particularly damaging to cotton's competitive position in domestic and foreign markets. I know you are aware of the contribution that the export of a significant percentage of our crop makes in the balance-of-payments problem that we are facing.

In addition, the possible decline of cotton from a major to a minor industry would affect not only farmers but more than 4 million other individuals whose livelihood depends upon the cotton production.

I can give you a good example, a personal example at home. In the past 3 or 4 years our acres of cotton have declined for cost reasons. When an acre goes out of cotton and goes into wheat, soybeans, or rice there is much less labor required. All of these we have on our farm now and some we didn't have at all 5 years ago.

You see, the cotton is processed there on the farm and the cotton gin employs some people. It is transported to a compress locally. The cottonseed goes into an oil mill that is in the local area, and all these afford jobs. And when an acre goes out of cotton those jobs are affected because on soybean, rice, wheat, or milo, right from the combine it goes into a truck without any change in its form to an elevator, and from an elevator into a railcar or into a barge and down the river it goes. Therefore the jobs are much less for those grain crops.

Fewer jobs resulting from fewer cotton acres, we believe, would be contrary to the aim of the Secretary of Labor, who has urged that this Nation explore the creation of jobs in the rural areas as vigorously as it searches for jobs in the urban areas.

We believe applying the principle of indexing to the statutory minimum wage, as proposed by Senate bill 1871 because of job loss and inflation, would not promote the general well-being of these workers. Nor, would it provide a reasonable and totally fair cost to the employer because the increases are automatic, arbitrary and completely without regard to merit and individual productivity.

This does not mean that minimum wage levels should remain constant. But, it does mean that any increase should first be evaluated to determine its possible inflationary effects and its impact on the structure and functions of the job market.

The inflationary aspect of the proposed indexing is that it is self-perpetuating. And since the index is based on the average hourly earnings in manufacturing, an increase in minimum wages raises the manufacturing average which, in turn, raises the minimum wage which, in turn, escalates the manufacturing wage and so on.

Also, the recognized pattern whereby the higher paid skilled workers maintain a historical difference between their wages and the minimum would further boost the average hourly wage and this, in turn, would lead to still another increase in the minimum wage the following year and additional pressure to raise the wages of higher paid employees again just to maintain the differential. It is kind of like the dog chasing his tail.

It may well be, Senator Williams, that providing for indexing could be the most inflationary action ever taken by the Federal Government. The repercussions would be especially drastic, for instance, for our elderly and others on a fixed income.

Some might argue now that the elderly are protected from inflation since social security payments are tied to the Consumer Price Index but I think everyone knows and particularly you who are here on the scene, the deep financial trouble this important social security system is in already.

The loss of jobs as a result of legislated increased wage costs without consideration for increased productivity is also a matter of concern. What has happened in the past is that many low-paying jobs have been traded for a few higher-paying jobs, worsening the plight of the unskilled. Again, I think Mr. Datt covered that.

We are having to invest in more powerful equipment and use larger equipment and more equipment and less labor to make it.

Under the provisions of the proposed legislation, the New York Times, estimates the loss of such jobs could range as high as 1 million. Some estimates are higher and some are lower, but there is one gen-

eral agreement and that is, that automatic increases in the minimum wage will have a definite negative impact on employment, particularly employment of the young. In the seasonal work in our fields it has gotten, Senator, where the main labor we have for the summer work of weeding, picking or gathering is young people or old people. They are not what we would call breadwinners for the family. They are people who are supplementing family income.

The abnormally high unemployment rate among the Nation's youth remains one of the most stubborn economic problems. Many sociologists relate this problem of drug abuse and teenage crime to lack of purpose, which stems, in great part, from lack of jobs.

In previous testimony, evidence was presented that indicated that for each percentage point increase in the cost of employing those 19 years old and younger, the employment declined by a greater percentage. Based on what would be a 40-percent increase in the minimum wage over these next 2½ years if it went to the $3.15, employment opportunities of the young could decline drastically.

The need to take positive action for the Nation's youth is now very compelling and we strongly urge that consideration be given to some form of workable wage differential. I want to emphasize the word "workable". There is a provision in the present law that really has not turned out to be workable to encourage the hiring and training of younger workers.

Providing job opportunities in the private sector, along with a sense of responsibility, would be a constructive approach to alleviating some of the inherent problems of high unemployment of the Nation's young as well as result in their becoming productive members of society.

There has been some concern that providing a youth differential would encourage employers to lay off adults with families to support, and replace them with younger people at lower wages. But even such a well-known institution as the Brookings Institution here in Washington indicates that the majority of low-paying jobs are not held by heads of households but by secondary wage earners in the family.

In summary, whatever benefits the regular incremental increases in the minimum wage through indexing might provide would be offset, in our opinions, Mr. Chairman, many, many times by the increased threat of perpetual runaway inflation; the loss of jobs; and the compounding of unemployment-related social problems of the Nation's youth. It could also prove damaging to our industry's competitive position and, in turn, to the livelihood of many others who depend on cotton.

Mr. Chairman, I appreciate this opportunity to come up and present our views. If you have any questions, I will try to answer them.

The CHAIRMAN. Thank you very much, Mr. Denton. Senator Bumpers certainly did not overstate what we could expect. We have had a very thoughtful statement from you.

Following your prepared statement and listening to you, I missed in your prepared statement any reference to youth employment and workable program effort here. Did you comment on that area?

Mr. DENTON. No; of course, I am here speaking for the Cotton Council. I guess the little old cotton farmer comes out in me every now and then. As I understand it—I am not an expert in this field—in order to get some exemption from the present youth differential you have to get prior approval and prior permission.

That is just not practical. We don't know, for instance, when we are going to start weeding cotton. It can vary 2 or 3 weeks. We don't know who is going to be there since these are seasonal workers. It hasn't been used to my knowledge.

The CHAIRMAN. In this prior approval, we are getting from the Department all their procedures here and I am not familiar with them now. When you say "prior approval" I wonder if that "prior approval" is an approval for a specific person?

Mr. DENTON. Yes.

The CHAIRMAN. I see your point. If there were to be a differential for students, for example—although I am not sure if there is in agriculture—it would be far more workable, obviously, if you could have a number assigned and be ready for it when the section hits you.

Mr. DENTON. I think you would make an exemption for students—that you could hire people you knew were students. You have different people every day in this kind of work.

The CHAIRMAN. So, an allocation of numbers rather than individuals would be more workable?

Mr. DENTON. That is right.

The CHAIRMAN. I wonder how the energy cost—there are disastrous increases in fuels—affected your industry.

Mr. DENTON. Since the embargo—that was 1973—I feel costs have at least doubled. It may be a little more than that. But they have at least doubled.

The CHAIRMAN. Again, from a layman's observation, we have galloped into higher productivity through mechanization, the farmers of our land, and I wonder if cotton, with all its processes has had a comparable increase in mechanization, comparable to, say, some of our ground crops that seem to be nearly 100 percent brought on through machinery. Take the potato crop, for example. I can recall when it was a hand harvest. It was a hand operation all the way through. Now, I am sure very few potato farms have hand harvests. How about cotton?

Mr. DENTON. Cotton may not have made quite the progress of the others. It has made a lot. For instance, you paid a picker so much 100 pounds, and when the minimum wage began to be applied to hand harvest it had to be translated into an hourly wage. Some pickers just cannot pick enough to make the hourly wage, and since machines were in the process of being developed at that time, we went completely to machine harvest. There is no hand harvest.

And I am not recommending that there should be. We are doing probably a more efficient job with the machine than we ever did with the hand. In our area, in the delta area, Senator, where we have around 50 inches of rainfall a year we still have to use some hand labor in the weeding of the cotton in the early stages.

We have cut out a significant percentage of it. Whereas we used to hand weed three or four times, we will do it once now and then depend on chemicals to handle it after that. It has caused an exodus, Senator, of a lot of people from the farming area. There are still empty houses out there now that even 5 years or 10 years ago had people in them. They supplemented income through the field work in the summertime.

The CHAIRMAN. Of course, all of this has created a different kind of job for manufacturers of machinery and there are many, particularly

young people, who are highly mobile and can leave the rural farming areas and go to centers of manufacture and then there are others who can't.

Mr. DENTON. You are absolutely right, sir. When we go and buy cotton pickers, that creates some jobs for somebody at a factory somewhere. But some of our farm people that we were alluding to, as I think you did, are not capable of doing this, and they are the ones that are going to get hurt in this thing.

The CHAIRMAN. Not capable, and there is a certain percentage that just want to keep their roots to the land and these are the ones we are talking to the Farm Bureau about too, those that piece out with seasonal things, but that is a pretty meager piecing.

Mr. DENTON. Yes, admitted.

But, I think it is good for those people to have something to do. There is some psychological benefit for a person who is doing something constructive and helping himself instead of depending on the government to do it all for him.

The CHAIRMAN. I think there is a role here for the Government to bring some effort to training people and providing some of the elements that will stimulate people and help them to take care of themselves. We were there when the President signed, just one-half hour ago, the Youth Employment bill. This is designed to meet the tragic situation of unemployed youth in the cities, but it also has something to say to rural areas too. This is one of the efforts being generated to try to find those ways to match opportunities with potential capabilities in youth training and incentives.

Mr. DENTON. Bear in mind that farmers often furnish housing. All the people that work on our farm live in a house on the farm. If I understand the new bill right, all workers will have the same minimum, whereas we used to have a different scale for farm workers. If the proposed wage goes to $2.65, as you are proposing, it is going to bring some problems with us paying the same minimum wage that industry does when we are furnishing places for people to live on the farm.

It is going to be hard to start charging people for housing because they are accustomed to having their homes furnished. It is going to bring a problem. I don't know the solution to it at this time.

The CHAIRMAN. I wonder how this provision of law works out, where the law does state that wage "paid to any employee includes the reasonable cost, as determined by the Secretary of Labor, to the employer furnishing such employee with board, lodging or other facility." How does that work out in application here?

Mr. DENTON. I was aware that was in the law. As a matter of practice, if I had been working for you for a period of years and you had been doing certain things for me and then a law comes along and establishes a new wage, if you stop doing those things for me I am not going to be very satisfied and happy with you.

So, what has happened, we have just continued to furnish these houses, and to some employees, even the utilities. And, as I said a while ago, we are going to have to do something about charging for that, but it is going to bring some strained relations between us and some of our employees. They will blame us for changing the rules. They won't blame you. They will blame me when I want to start

charging something for that house or not furnishing the electricity or heat, as we do in some cases.

The CHAIRMAN. I suppose you are now addressing yourself to those people who are above the minimum wage, am I right?

Mr. DENTON. There are some.

The CHAIRMAN. There is not a question of that impacting the wage in determination of paying the minimum wage. You are talking about those that are well above the minimum wage.

Mr. DENTON. Those that are at or above the minimum. We have some at it, and we have some above.

The CHAIRMAN. At any rate, rather than charging them for a payment out of their pockets in the second degree, have you thought of doing it in the first degree and using that as a computation of their wage for minimum wage standard?

Mr. DENTON. I see the point that you are making. They are just accustomed to this, Senator, and I know we are going to have to change it. It is just going to take some change, and it is just a little hard to work sometimes, but we will have to do it as these wages go up.

The CHAIRMAN. The law permits you to. I know that a lot of times when the law puts a demand upon you, it is required that a notice be posted of exactly what the law demands of you as an employer. There might be an opportunity here to get the Department to tell you what the law permits you to do.

I am very grateful to you for coming here from the delta and being part of these deliberations. It is a complex matter that comes before us periodically. One of the arguments for the indexing is to relieve everybody of the necessity of coming to this exercise.

You know what that indexing amounts to in a percentage really? It is about what the minimum wage has been as a percentage of the average manufacturing. There was one period when we did not successfully deal with minimum wage at the usual time, and the percentage the minimum wage bore to the average manufacturing wage fell to about 37 percent. Otherwise, it has maintained itself up there in the high 40 percent, which is about what this will do.

Even the 52, 53 percent stated will, in fact, be, because of a lag in computation, about 48 percent. I know it is a troublesome thing for many people.

Mr. DENTON. May I ask you a question along this line?

The CHAIRMAN. I don't know if we have the answer.

Mr. DENTON. Where are we going to end up? Ten years ago the minimum wage was $1.60. Under the proposal here, in 1980 it will be $3.20—twice that. Where will we end up 10 or 20 years from now?

The CHAIRMAN. We don't know. Inflation, of course, is one of our most persistent economic dilemmas. I don't believe the minimum wage legislation is the push on increased wages. I think the core of the push for greater wages comes from those workers who are organized and have that opportunity under law to bargain with the employer. They are there to advance the needs through inflationary cost of living for an increase in wages. They are also there to advance their productivity increases as part of their bargaining.

I look at the minimum wage as we are followers, not leaders, in increases in wages. We are always behind because these contracts come up absolutely. The minimum wage comes up sporadically.

Mr. DENTON. I understand your point, but what are we smaller businessmen going to do.

The CHAIRMAN. Support the President when he says balance the budget by 1981, I guess. I noticed today that they are starting the administration buildup for the budget in 1979. It is a no-growth. That was the first headline this morning.

We are going to have a continuation of human tragedy, and I can see what the tragedy is of unemployment and all of the social effects that come with people who are not in a position to be producers. I would imagine the headline was greeted by many as a welcome sign that the President is absolutely intent on dealing with inflation. That is one way to approach it. It has to be more of a balance.

Mr. DENTON. I know it is a very complex problem. We have got to make a profit. I know we recognize this. I am glad I don't have your job.

The CHAIRMAN. I don't envy you the vagaries of things. There is no real control over the weather, the climate, and all of that. We had a President at one time who was a grand man. We were getting ready for a political campaign. I guess we will keep this on the record. I don't guess I will be censured for this.

He was one of the great modern Presidents. He had us all down to the White House with all the economic tracks. Everything was up. Then, we got to agriculture. Crops were up, prices were up, prosperity was there for the farmers of the land, and he said, "Maybe it's because of the right amount of rain, the right amount of sun, but we're going to take credit for it."

Thank you very much.

Mr. DENTON. Thank you. You have been kind. I appreciate it.

[The prepared statement of Mr. Denton, along with additional statements and material supplied for the record follows:]

Statement of
Chauncey L. Denton
National Cotton Council
Senate Committee on Human Resources
Fair Labor Standards Act
August 5, 1977

My name is Chauncey L. Denton. I am a cotton producer and cotton ginner and former Chairman and President of the National Cotton Council. I appear today for that organization.

The National Cotton Council is the central organization of the U.S. raw cotton industry, representing cotton producers, ginners, cottonseed crushers, warehousemen, merchants, cooperatives and manufacturers.

The Council supports the principle of fair labor standards. But standards that eliminate jobs for workers who have greatest need and least opportunity are counter-productive. Also standards that fuel inflation and create additional costs that must be borne by either producers or consumers or both serve no good purpose and are not in the national interest.

Under the bill before you, Mr. Chairman, the minimum wage would rise from the current $2.30 an hour to $2.65 effective January 1, 1978. Effective January 1, 1979 the minimum would be adjusted to equal the equivalent of 52 percent of the average hourly wage in manufacturing. On January 1, 1980 the minimum wage would be permanently set at 53 percent of the average hourly manufacturing wage.

Current calculations by the Department of Labor indicate the minimum wage under this formula would be $2.89 an hour on January 1, 1979 and $3.15 on January 1, 1980. The minimum wage could be even higher, depending on actual changes in manufacturing wages over the next two and one-half years.

Our concern with S.1871 is very deep. We view it as a complete departure from the concept that ties renumeration to productivity. We see the indexing provision as a dangerous precedent that could seriously jeopardize the jobs of workers at the lowest salary levels and which puts into motion a continual inflationary spiral that through

the years could wreck havoc on our economy. From the cotton industry's point of view, (and we are a labor intensive industry) it weakens our ability to compete with giant, highly mechanized, man-made fiber companies and our competitors overseas.

At the Council's annual meeting on February 1, 1977, our voting delegates unanimously adopted the follwoing resolution:

> "The Council recognizes that among the nation's most urgent problems is the need to curb inflation and maximize employment, and that inordinate increases in the minimum wage and extension of coverage by the legislative branches of government aggravate both these problems and result in higher costs for the cotton industry, thus jeopardizing its ability to compete."

Cotton farms, gins, oil mills and warehouses depend to a large extent on unskilled labor. In view of our industry's short intensive harvest periods, a large number of of these workers are employed seasonally. In many instances they are provided housing year-round. The majority are workers that are not equipped by training to seek gainful employment elsewhere. Their productivity in most instances is limited and many would of necessity be replaced if the wage structure requires wages over and above their economic contribution.

Very obviously, the provisions of this legislation would have a significant impact on the total available jobs for these workers and on the cost of producing and marketing cotton. It could prove particularly damaging to cotton's competitive position in domestic and foreign markets.

In addition, the probable decline of cotton from a major to a minor industry would affect not only farmers, but more than four million other individuals whose livelihoods depend directly on cotton production.

Such a result would be contrary to the aim of the Secretary of Labor, who has urged that this nation explore the creation of jobs in rural areas as vigorously as it searches for jobs in urban areas.

Applying the principle of indexing as proposed in S.1871 to the statutory minimum wage - because of job loss and inflation - would not promote the general well-being of workers. Nor would it provide reasonable and fair wages, since increases would be

automatic, arbitrary and completely without regard to merit and individual productivity.

This does not mean that minimum wage levels should remain constant. But it does mean that any increase should first be evaluated to determine its possible inflationary effects and its impact on the structure and functions of the job market.

The inflationary aspect of the proposed indexing is that it is self-perpetuating. Since the index is the average hourly earnings in manufacturing, an increase in the minimum wage raises the manufacturing average which, in turn, raises the minimum wage, which esculates the manufacturing wage and so on.

The recognized pattern whereby higher paid skilled workers maintain a historical difference between their wages and the minimum would further boost the average hourly wage. This in turn would lead to still another increase in the minimum wage the following year and additional pressure to raise the wages of higher paid employees again just to maintain the differential.

It may well be that providing for indexing would be the most inflationary action ever taken by the federal government.

The repercussions would be especially drastic for our elderly and others on fixed incomes. Some might argue that the elderly are protected from inflation, since Social Security payments are tied to the Consumer Price Index. But I think everyone knows the deep financial trouble the important Social Security System is in already.

The loss of jobs as the result of legislated increased wage costs without consideration for increased productivity is also a matter of serious concern. What has happened in the past is that many low-paying jobs have been traded for a few high-paying jobs, worsening the plight of the unskilled.

Under the provisions of this proposed legislation, the loss of such jobs according to a March 21 New York Times editorial could range as high as one million. While some estimates are much higher and vary widely, there is one general agreement. And that is excessive automatic increases in the minimum wage will have a definite negative impact on employment, particularly employment of the young.

The abnormally high unemployment rate among the nation's youth remain one of our most stubborn economic problems. Many sociologists relate the problems of drug abuse

and teenage crime to lack of purpose, which stems, in great part, from lack of jobs.

In previous testimony, evidence was presented that indicated that for each percentage point increment in the cost of employing those 19 years old and younger, employment declined by a greater percentage. Based on the proposed 40 percent increase in the minimum wage over the next two and one-half years, employment of the young could decline by well over 50 percent.

The need to take positive action for the nation's youth is now very compelling. We strongly urge that consideration be given to some form of wage differential to encourage the hiring and training of younger workers. Providing jobs, along with a sense of responsibility, would be a constructive approach to allevating some of the inherent problems of high unemployment among the nation's young, as well as result in their becoming productive members of society.

There has been some concern that providing a youth differential would encourage employers to lay off adults with families to support and replace them with young people at lower wages. However, according to the Brookings Institution, a Washington research group, the majority of low-paying jobs are held not by heads of households, but by secondary wage earners in the family.

In summary, whatever benefits regular, incremental increases in the minimum wage through indexing might provide, they would be offset many, many times by the increased threat of perpetual, runaway inflation; the loss of jobs; and the compounding of employment related social problems of our nation's youth. It could also prove damaging to our industry's competitive position and in turn to the livelihood of many others who depend on cotton.

Mr. Chairman, we appreciate this opportunity to present our views.

INTERNATIONAL ASSOCIATION OF CONFERENCE CENTER ADMINISTRATORS

A POSITION PAPER ON WAGE AND HOUR LEGISLATION

TO: THE SENATE HUMAN RESOURCES COMMITTEE - Harrison Williams, Jr., Chairman
THE HOUSE COMMITTEE ON EDUCATION AND LABOR - Carl D. Perkins, Chairman

FROM: Frank M. Washburn
President, IACCA
YMCA Blue Ridge Assembly
Black Mountain, N. C.

Mrs. Melba Banks, Chairman
Legislation Committee
Christmont Assembly
Black Mountain, N. C.

Kenneth McAnear
Legislation Committee
Baptist Conference Center
Ridgecrest, N. C.

INTRODUCTION: Church and YMCA Conference Centers have been in existence for nearly 70 years. They have been built in areas of great natural beauty throughout the United States. They are used primarily as meeting centers for religious, educational and leadership growth experiences for youth and adults. They provide residence accommodations, meal service, meeting and recreational facilities. Today there are about 1,000 centers.

THE INTERNATIONAL ASSOCIATION OF CONFERENCE CENTER ADMINISTRATORS is a voluntary association of individuals associated with Conference Centers. Its primary purpose is to stimulate high standards of professional leadership, exchange of experiences and successful management practices. It has a membership of 71 Centers.

STAFFING CONCEPTS OF CONFERENCE CENTERS Conference Centers employ a large number of students, teachers and semi-retired persons, who are involved in various program and educational activities designed to enhance their own personal growth, in addition to meeting the basic staffing needs of the Conference Center.

ESTIMATED NUMBER OF EMPLOYEES These Centers employ about 50,000 seasonal staff members each summer.

STATEMENT OF PROBLEM In 1972 and 1976, the American Baptist Assembly, Green Lake Conference Center in Wisconsin and YMCA Blue Ridge Assembly in Black Mountain, N. C. were audited by the U. S. Dept. of Labor. It was determined they were religious-educational institutions and must comply with minimum wage and hour regulations. The only possible exemption in the law is for an amusement and recreation establishment generating two-thirds of its receipts in any six months of the year and open to the public.

WE DO NOT SEEK AN EXEMPTION FROM MINIMUM WAGE AND HOUR REGULATIONS FOR OUR PERMANENT STAFF, WHO ARE HEADS OF HOUSEHOLDS.

WHAT RELIEF DO WE SEEK? Because Conference Centers recruit students, teachers, and the semi-retired throughout the United States on a seasonal basis, provide them with meals, rooms, the opportunity to participate in a wide variety of educational, recreational and personal growth activities, with a fluctuating work week, we seek an exemption from the law for this classification of employee.

IT WILL REDUCE UNEMPLOYMENT We feel that this will reduce unemployment since we cut our staff in excess of 25% when it was determined we were covered by the requirements of minimum wage and hour law. If this trend continues, more than 12,000 young people teachers, etc. will be in direct competition for jobs in the commercial labor market.

SUMMARY Therefore, we respectfully petition the Congress of the United States to give due recognition to the unique nature of Conference Center employment practices and allow certain exemptions to the current minimum wage and hour law.

STATEMENT ON S. 1871

FAIR LABOR STANDARDS ACT AMENDMENTS OF 1977

SUBMITTED BY THE ASSOCIATED GENERAL CONTRACTORS OF AMERICA

TO THE SENATE SUBCOMMITTEE ON LABOR

COMMITTEE ON HUMAN RESOURCES

JULY 28, 1977

The Associated General Contractors of America is a national business association representing more than 8,000 general construction firms. These firms perform about 60 percent of the annual contract construction volume of the United States. Our membership represents the full range of the construction industry, including the construction of highways, buildings, municipal-utilities projects and heavy and industrial facilities.

The AGC is very concerned about S. 1871, specifically about the provision on indexing.

This idea is neither new nor, do we believe, good. Indexing legislates inflation and makes it permanent. It does nothing to reduce inflation.

As businessmen, we find the proposal unbelievable and unacceptable. Increases in wages ultimately show up as a component in increased costs. What we see is a vicious circle of inflation feeding upon itself. We believe the indexing provision in this bill will do nothing to lower the inflation rate and indeed may even increase it. Moreover, with indexing, the minimum-wage worker is simply a victim of inflation.

In short, we see indexing as a surrender to the forces of inflation and as such there is no place for it in this nation's economic structure. If it is the will of the people that the minimum wage be increased, then we believe it should be done through the act of Congress and not by some automatic mechanism or formula.

Any indexing method is only as good as the method used to measure it. The formula proposed in this bill is bad. The average hourly earnings index feeds on itself. The minimum wage is included

in the elements used to compute the index. As the minimum wage goes up, the index goes up; therefore, as the index goes up, the minimum wage goes up. This is folly.

There is also the question of productivity. We feel it necessary to consider increases in productivity if you consider increases in wages. Wage increases in manufacturing payrolls often involve increases in productivity and advances in technology. And it is large industries such as steel and auto making which are constantly searching for ways to improve productivity and technology. These industries, in turn, have a large effect on the index. However, by indexing a wage, there is no incentive for the worker to improve productivity or even to inspire the worker to push ahead to a better employment position.

This inevitably leads the employer to consider what it costs to employ a person. If the cost keeps automatically increasing without increased productivity, the employee cannot be kept on. And it is the unskilled or younger workers who are employed at the minimum wage. The indexed minimum wage prices them out of the job market. The result is twofold: unemployment increases and the chances to learn a skill or gain work experience diminish.

Indexing can be a deadly economic trap. Rather than solving problems, it can easily create them.

We thank the Subcommittee for its time and consideration.

STATEMENT
ON THE
FAIR LABOR STANDARDS AMENDMENTS OF 1977 (S. 1871)
FOR THE
SENATE COMMITTEE ON HUMAN RESOURCES
AUGUST 1, 1977

The Council of Construction Employers, Inc., is a non-profit organization, having as its members ten national employer associations in the construction industry. They are:

Associated General Contractors of America, Inc.
Ceilings & Interior Systems Contractors Association
Mason Contractors Association of America
Mechanical Contractors Association of America, Inc.
National Association of Home Builders
National Electrical Contractors Association
National Insulation Contractors Association
National Roofing Contractors Association
Painting and Decorating Contractors of America
Sheet Metal and Air Conditioning Contractors National Association, Inc.

Council member associations have a combined membership of 105,000 contractor employers in the construction industry employing approximately 3,500,000 construction workers.

All of our member associations have chapters or contractor members who not only employ members of organized labor in the construction industry, but negotiate collective bargaining agreements with them as well. Therefore, they are vitally concerned with any legislation having an impact on wages and productivity in the construction industry. In addition to our member associations, we also have as participants in the Council's program to improve collective bargaining, groups from eighteen of the major industrial states in the country.

The Council appreciates this opportunity to express its opposition to S. 1871 -- the Fair Labor Standards Amendments of 1977.

Our opposition is based on the firm belief that the proposed increases in the minimum wage constitutes a clear danger of creating greater unemployment and higher inflation. In the current period of gradual economic recovery in the construction industry, the impact of S. 1871 could be harmful to the recovery. In particular, indexing of minimum wage increases, as proposed, would have several adverse effects.

Increase in the Minimum Wage

Minimum wage legislation has in the past been proposed as a shield against low-wage competition and as an aid to low income workers. However, an excessive minimum wage has the perverse effect of restricting employment opportunities by pricing the least productive and most needy workers out of the market. What good does it do for the low-skilled worker who, because of an excessive minimum wage, is out of work because no employer is willing to pay him that rate?

If an employer is forced to pay an excessive wage rate, he is certain to retain only those essential and highly skilled workers who, in the construction industry, most likely already are receiving well above the minimum rate.

The increase in the minimum wage will very likely find its way into construction labor negotiations and will be cited as a basis for increases in wages to maintain existing wage differentials relating to skill and other factors. The projection of an increase in the minimum wage into higher wage rates can result in a continuation of the inflationary cycle.

Higher labor costs would also increase construction costs without increasing productivity. If construction employers cannot offset higher labor costs, the added construction costs will contribute to inflation.

In summary, a higher minimum wage would not create more jobs in the construction industry but would tend to decrease the number of existing jobs.

Another harmful provision of S. 1871 is the "indexing" of future minimum wage rates based on increases in the average hourly manufacturing wages. Annual escalation of the minimum wage will create permanent inflation in the construction industry.

The passage of S. 1871 would make it increasingly difficult for contractors to bid on long-term contracts. It will be impossible for any contractor to predict what minimum wage increases there will be during the life of any contract. Factoring against future wage increases can only result in ever-increasing inflation.

The passage of S. 1871 would contribute to the problems of inflation and unemployment in the construction industry which already has a current 16 per cent rate of unemployment.

SUMMARY

We urge the Committee to reject S. 1871 because it is inflationary and would increase unemployment in the construction industry.

STATEMENT

ON

S. 1871

BY

FRANK D. REGISTER, EXECUTIVE DIRECTOR

NATIONAL ASSOCIATION OF RETAIL GROCERS OF THE UNITED STATES

BEFORE THE

SUBCOMMITTEE ON LABOR

SENATE COMMITTEE ON HUMAN RESOURCES

August 29, 1977

Mr. Chairman and Committee members, I am Frank D. Register, Executive Director of the National Association of Retail Grocers of the United States (NARGUS). NARGUS is a national nonprofit trade association representing local operators of retail grocery stores. NARGUS members operate local retail grocery stores including supermarkets. NARGUS has approximately 40,000 members in all states of the Union.

Since retailers were first covered under the Fair Labor Standards Act in 1961, grocers represented by NARGUS have had a close and continuing interest in the impact of this law and any proposed changes on their business.

Our comments today concern S. 1871. For nonagricultural employees, this proposed measure provides that effective January 1, 1978, the minimum hourly wage rate would be set at $2.65 an hour. Beginning January 1, 1979, the minimum hourly wage rate would be indexed at not less than 52 percent of the annual average hourly earnings of production workers on manufacturing payrolls. Beginning January 1, 1980 and the years thereafter, the index rate would be set at 53 pe:cent of the annual average hourly earnings of production workers.

The bill directs the Secretary of Labor to publish in the Federal Register, by August 31 of each year, the average hourly earnings of production workers on manufacturing payrolls for the 12 month period preceding June 30 of each such year.

Another provision of the bill would gradually phase out the tip credit provision by 1983.

For nonagricultural workers, the minimum wage rate would increase by 16 percent to $2.65 per hour on January 1, 1978, and by 26 percent to approximately $2.89 per hour on January 1, 1979.

Inflationary Consequences

A major concern about S. 1871 is that it will introduce into the economy a built-in inflationary mechanism at a time when higher rates of inflation are beginning to develop. Fears are rising in this country that higher and higher increases in prices, wages, and interest rates may be a greater threat to the economic growth and employment.

The rate of inflation as shown by June's Consumer Price Index increased substantially. The 0.7 percent June increase in the CPI works out to a 7.2 annual rate, which is much higher than the 4.8 annual rate shown for June 1976. We are told that rising prices for food and services are chiefly responsible for the June CPI jump.

The cost of food in grocery stores went up 0.7 percent in June, pushed primarily by price increases in processed foods such as dairy products, canned and frozen fruits, vegetables, cereal, and coffee. A matter of special attention is that in terms of inflationary trends on food and fuel prices, we have not yet felt the full impact of the adversities caused by higher future energy costs. The Consumer Price Index shows that fuel oil and coal prices increased 14.5 percent, and gas and electricity prices have risen 13.4 percent since June 1976.

No one can look at these price increases without some concern that the country's battle against the evil of inflation has suffered a serious setback. Right now we may be closer to double-digit inflation than is generally realized.

This is certainly no time for Congress to build into our economic system increased inflationary pressures. We have seen in the early 1970's how higher wages and prices chase each other in an upward spiral while many people suffer great hardship and the economy slides into stagnation, higher unemployment, and continued inflation.

Indexing the required minimum hourly wage on an ever inflationary cycle affects not only the lower paid workers but also others on a higher wage scale. This fact has long been described as the "ripple" effect with which we are familiar.

The inflationary effect of S. 1871 should also be considered in relation to the output per unit of labor input in retail food distribution. Productivity, as determined by output per hour, provides a rough benchmark for determining the extent to which increased labor costs may be absorbed without major consequences increasing consumer prices. In a very general way, the issue here is a measure of rising efficiency.

In a recently published Bureau of Labor Statistics study of productivity trends covering the retail food industry, it was determined that output per hour of all persons in the retail food industry increased at an average annual rate of 2.4 percent from 1958 to 1975.

In 1973 and 1974 when food prices, as measured by the Consumer Price Index, increased 16 percent and 15 percent respectively, output per hour decreased 5.1 percent in 1973 and 2.1 percent in 1974. The point here is that, as inflation increases, followed by an inevitable recession in business activity, productivity or output per hour goes down leaving less room for non-inflationary wage increases.

The best way to promote higher wages in a private competitive enterprise system is to curb inflation thereby allowing the economy to improve with higher disposable income, more jobs, and an increasing number of hours worked.

With all due respect for the supporters of S. 1871, the effect of this proposed measure will work against a better standard of living for Americans. The bill will not help those it is designed to assist and will hurt the country.

This is one reason why we oppose the proposed indexing of the required minimum hourly wage.

Effects On Unemployment

Unrealistic minimum hourly wage requirements stimulate unemployment, especially for teenagers.

Lack of skills and qualified experience are one general reason why many young people cannot find a job that meets their needs and desires.

Based on July 1977 data, unemployment nationwide continues to run about 7 percent. However, unemployed nonwhite teenagers amounted to an astounding 40.7 percent, and white teenagers looking for a job ran at the high rate of 17.4 percent.

No currently unemployed group of workers suffers more than the youth of this country. The rate of unemployment for this group is awesome. Something like 1 teenager out of every 5 is now looking for work.

It does not appear the answer to this problem is to legally require that employers pay automatic yearly minimum wage increases depending on payroll increases for manufacturing workers. Most employment opportunities today are in the retail and service sectors of the economy.

Part-time employees account for over 40 percent of the work force employed in retail food stores, according to a 1968 Bureau of Labor Statistics report. It is a well-known fact that retail food stores constitute a prime source of employment for youth workers. The number of paid employees in retail food distribution exceeds 2 million.

A new provision in the law allowing a special sub-minimum hourly wage for teenagers would open more jobs for unemployed youth.

Nearly 2,000,000 teenagers are now looking for work, according to Department of Labor figures. Teenage unemployment is a serious problem. Every year, there is an approximate 10 percent increase in the teenage population. The need therefore is not only to find useful employment for some 2,000,000 teenagers who are

unable to find a job, but also to create an additional 700,000 or more new job opportunities annually to take care of the numerical growth in this age group.

In 1970, a study by the Commissioner of Labor Statistics found that:

> "Increases in the level and expansion in the coverage of the Federal minimum wage law may have contributed to employment problems of teenagers, but it is difficult to disentangle such effects from numerous other influences. Nevertheless, evidence from a variety of sources, including experience in foreign countries, suggests that a substantial differential between youth and adult rates would increase job opportunities for teenagers."

Available evidence seems to indicate that teenage job problems can be aggravated by an increase in the required minimum hourly wage. With teenage unemployment currently running three and four times the unemployment rate for adults, Congress should not pass any legislation which carries with it a probability of making the problem worse.

A youth differential in the required minimum wage would tend to create many thousands of job opportunities for young people. To be effective, the differential should be at least 20 percent and not be encumbered by administrative red tape. For these two reasons, among others, the present full-time student certificate program is inadequate and ineffective in alleviating teenage unemployment.

If new legislation is passed covering the minimum wage law, we urge approval of at least 20 percent sub-minimum wage for teenagers employed in a retail food store.

Thank you for the courtesy of your attention. We appreciate the opportunity of presenting this statement.

50 Park Place, Newark, New Jersey 07102 201-623-8359

STATEMENT

of the

NEW JERSEY BUSINESS & INDUSTRY ASSOCIATION

to the

Members of the

UNITED STATES SENATE
Committee on Human Resources

on

S-1871

"An Act Amending the Fair Labor Standards Law
Increasing the Federal Minimum Wage"

August, 1977

The New Jersey Business and Industry Association (formerly New Jersey Manufacturers Association) on behalf of its 13,000 member companies located throughout the State, urges OPPOSITION to S-1871 currently before the Senate Subcommittee on Labor.

The proposal to hike the Federal minimum wage from $2.30 per hour to $2.65 on January 1, 1978, and then to 52 percent of the average straight time earnings in manufacturing on January 1, 1979, and then again to 53 percent on January 1, 1980 is more than a job hungry economy can properly digest at this time.

Many businesses ordinarily at the bottom of the wage scale are those that employ significant numbers of youth, minorities, handicapped and the marginal workers. These workers are the ones that would be affected by the increase in the minimum wage. The result of these businesses being financially unable to operate will be unemployment or welfare for their employees.

Furthermore, an increase in the minimum wage threatens the startup of new businesses that at the beginning may have to pay lower wages than established firms. Such businesses have the potential for economic stimulation, growth and creating new jobs.

These people are gainfully employed now and unemployment or welfare is not the answer to present employment. With the minimum wage possibly going up on a regular basis, there is little hope for these unemployed or welfare recipients in permanently attaching themselves to the labor market.

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The overall cost to the economy and the public at large far outweighs the claimed benefits for low-paid workers and their families. Ordinarily, people do not stay in minimum wage jobs; they normally progress to higher paying jobs as they acquire some skill and job openings occur. Increasing the minimum wage would inevitably eliminate some job opportunities at the entry-level.

Naturally, the productivity of unskilled workers is low until they receive job training and experience. Providing job training opportunities is expensive - and increased labor costs would make it more difficult for employers to provide on-the-job training.

There are some states that take their lead from the Federal Government for increasing their own minimum wages. Following this lead, there would be a serious employment ripple effect on those states in jobs not ordinarily covered by Federal standards.

Although it may first appear that raising the minimum wage will lead to a more equitable distribution of income and help to lift the lowest-paid workers out of poverty, in fact, the opposite may be true. The key to understanding the negative effect of rising minimum wages lies in viewing the increases - not as a means to earnings growth for the worker - but as a potential rise in labor costs to the employers. In an effort to avoid the cost increase, the employer may take a variety of steps, including: automating some of the work (if the new minimum wage is high enough to make it profitable to substitute machinery for labor); organizing production methods more efficiently; changing the product mix; substituting skilled or experienced workers for the low-skilled (minimum wage) employees;

or otherwise adapting operations to reduce the employment of low-wage workers. This leads to higher unemployment among those workers at the bottom of the wage ladder, primarily teenagers.

Two well-known Nobel Prize winning economists - Professor Paul Samuelson (MIT) and Professor Milton Friedman (University of Chicago) - who generally hold different views on most issues, are in full agreement over the adverse effect minimum wages have on employment. Professor Samuelson states that minimum wages "often hurt those they are designed to help." Further, he asks: "What good does it do a black youth to know that an employer must pay him $2.65 or more an hour if the fact that he must be paid that amount is what keeps him from getting a job?" Professor Friedman recently said: "Without the minimum wage law, the least skilled could offer to work for low wages, which would provide an incentive for employers to hire and train him. It has always been a mystery to me why a teenager is better off unemployed at $2.65 an hour rather than employed at, say $2.30."

Respectfully, the New Jersey Business and Industry Association urges that you reject S-1871 in its present form, and that a modified approach to an increase in the minimum wage be followed, namely, $2.50 per hour effective January 1, 1978, with no automatic increases.

* * * * *

THE MINIMUM WAGE, EMPLOYMENT, AND INCOME.

Carolyn Shaw Bell
Katharine Coman Professor
of Economics
Wellesley College

Most of the controversy about the minimum wage concerns its effect on unemployment. This means looking at wages as a form of prices - the dollars paid for a given amount of labor. Setting prices "too high" causes a surplus or excess supply. So some people argue that raising the minimum wage will make it "too high" and an excess supply of labor, or more unemployment, will indeed appear.

But we can also look at wages, like many other prices, as a form of income - the dollars received by the person who works. And some argue that this income is set "too low" - that the current minimum is less than a poverty wage.

The Coalition for a Fair Minimum Wage "is seeking a substantial increase in the present federal minimum wage of $2.30 an hour to bring the minimum wage above the poverty level." The Coalition uses $2.95 an hour as the poverty level. This figure has been picked up by the press and other media; news items about the minimum wage repeatedly quote figures of "about $2.95" or "$2.93 per hour" as the "Federally established poverty line." In fact, no such poverty figure on a per hour basis exists. By including the valid statement that 3.1 million workers earn the minimum wage or that 6 million earn less than $2.65 hourly, such reports give a totally erroneous picture of widespread poverty among workers at the minimum wage.

Poverty concerns income, not wages, and poverty varies according to the number of people living on a given income. That is why the "Federally established poverty line" actually consists of 124 different dollar sums, each for a different size of household living under different conditions. It follows that no single hourly wage could be

either above or below "the poverty level" - it all depends on whom that wage-earner is supporting.

The $2.95 per hour quoted comes from dividing the annual poverty level income for a four-person family by 2000 hours, which is the normal work-year. Such a calculation makes one or both of the following assumptions. First, that families in this country are supported by one earner, so that the wages paid to one worker constitute the entire income for the family. In this case a minimum wage level can be determined by figuring an appropriate income level for the family, which is essentially what the Coalition is arguing. Second, that the minimum wage for any worker should be sufficient to support a family, which is also implicit in the Coalition's argument. Both positive and normative statements, in other words, are involved.

Taking the positive statement first, it is not true that any significant number of families is wholly dependent on a single worker earning the minimum wage. The Bureau of Labor Statistics reported last March that fewer than 4 million four-person families in the country are supported by only one worker (4.2 million such families contain two workers, and 1.7 million contain three or more.) Of the eleven million four-person families 1.3 million have incomes below the poverty level but they include older retired people, as well as those who are unemployed, students, or disabled. For such families, the level of the minimum wage is irrelevant to their poverty status.

When we look at all families of all sizes, not just four-person families, we find that almost two-thirds receive income from two or more earners: again, the minimum wage is not a significant means of

support for entire families. Most families have other sources of income besides earnings: only 9 per cent of those in poverty depend solely on wages, and there is no evidence that these are minimum wages.

Of course, there is no way to calculate one minimum wage that would provide adequate family income, since families come in different sizes. A wage sufficient to support a four-person family spells poverty to the couple with six children, and a very comfortable living for the three-person family with two earners.

In terms of positive economics, then, to equate an hourly wage that applies to all workers, who may be single or living in a family with other workers, with the minimum income for four-person families is just plain wrong. The arguments to raise the minimum wage "above the poverty level" are fallacious.*

The normative question, should the wages of one earner be sufficient to support a family, raises other issues. First, does our citizenry accept family maintenance as a major social goal, including the support of particular families? Second, if we do wish to ensure the economic well-being of families, should we provide family income via the wage (and price) system or through other means?

We could decide that marriage and the family represent solely individual choice and responsibility and that society has no interest in, and therefore no responsibility for, the health and well-being of families. Marriage and a family would be a consumer's purchase decision, like buying a house or a hi-fi or college education. In the United States today consumers are offered two principal models of marriage and the family. One entails an employed worker supporting a dependent

* A particularly misleading example of this argument appears in two recent pieces distributed by the AFL-CIO. These are analyzed in Appendix I to this paper.

adult - usually female - who cares for the household and the home-life of the family rather than earning income in outside employment. The other consists of two adults who pool their earned incomes to care for the household and the home-life of the family, and who may also support one or more dependents - usually children. As we have seen, the second type has become the most common in contemporary U.S. life.

We could, however, decide that families represent a vital institution in our society and that we will assume some responsibility for maintaining families. And then we would also have to determine how much we, as taxpayers, were willing to spend on this particular aspect of social policy.

It is safe to say that people in the United States believe that individuals do have responsibilities to the families they create, but that society also has an interest in preserving marriage and the family as an institution. It is also safe to say that if we have some generally agreed judgement that families are a Good Thing, we do not have any agreement on how much, and how, we are willing to spend supporting this particular institution.

The policy issue relates to the minimum wage only in so far as earnings (always paid to one worker) represent income to a family. A social policy of providing income support to families must contain other measures than laws affecting wages.

First, many families contain no workers: income maintenance then must be provided outside the market system. Second, if wages were used to secure adequate incomes to the families which do contain workers, then serious questions of efficiency would arise. If you're

being paid because you're the family breadwinner, would it make any difference what kind of a job you hold? Why should you work harder than you have to? Why strive to get ahead?

Other questions would appear concerning family size. If the worker gets paid because he's got a family to support, does this go for a family of any size? At what point would we say to the working poor "You are poor not because your wages are too low but because you have too many children?"

These normative questions can, of course, be multiplied. The existence of the minimum wage debate dramatizes the fact that prices have two functions. They ration out existing supplies among the demanders, or they steer existing buyers to the suppliers. But prices always provide income to the people who supply goods and services, and the clearest example is the price of labor.

Appendix I

The Minimum Wage and Women

Exhibit A consists of two paragraphs from an undated piece about the minimum wage, H. R. 3744 & S. 1871. It was issued by the Coalition for a Fair Minimum Wage, but it is also entitled "AFL-CIO Special Report." The adress of the Coalition, given on the piece, is that of AFL-CIO headquarters in Washington, D.C.

The second paragraph can be flatly contradicted by figures from the Current Population Report, Series P-60, No. 106, "Characteristics of the Population Below the Poverty Level: 1975" (GPO, Washington, D.C.) This publication provides data about the actual people whose measured incomes have been compared to poverty-level income standards and found wanting. It contains detailed data about the demographic and economic background of these people, including information about their sex and marital status.

Table 14, entitled "Work Experience - Persons 14 Years Old and Over by Poverty Status in 1975, Age, Sex, and Race" (pp. 64-70) discloses the following:

10,726,000 females had incomes below the poverty level. Of these, 3,220,000 worked last year. 1,737,000 workers held fulltime jobs (meaning 35 hours a week or more.) Of the fulltime female workers below the poverty level, 444,000, (four hundred forty-four thousand) worked 50 to 52 weeks during the year. The remainder of the 2,778,000 poor women workers held either part-time jobs, or worked for only part of the year. The "four million" figure used in the second paragraph is a gross error.

Where did the figure come from? From using the poverty-level income designated for a four-person family, and comparing this figure to the earnings of individual workers. Another Census Bureau

EXHIBIT A

AFL-CIO

Special Report

LABOR LAW REFORM

Minimum Wage H.R. 3744 & S. 1871

What is the federal minimum wage?

It is a floor under wages—the minimum amount per hour an employer may legally pay a worker. The law states that the minimum wage should yield "a minimum standard of living necessary for health, efficiency and general well being of workers."

Why do we need a federal

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Who are the minit

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What about women workers?

Nearly two-thirds of the women in the workforce have to work. They are either heads of families, the sole support of themselves or had a husband with an annual income of less than $10,000—which is the "austere" budget for a family of four.

The Census Bureau reports that in 1975 about 4 million women worked full-time, year-round and earned less than the poverty level. Of the 2,430,000 female heads of families with incomes below the poverty level, 41.8 percent are black.

AFL-CIO economists estimate that two-thirds of all workers earning within 5 cents of the present minimum wage of $2.30 an hour are women. Therefore, a minimum

wage?

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would set
average straight-
ion workers in manufac-
and each January thereafter, the
would be set at 53 percent of the average
wage. Two bills, H.R. 3744 in the House and
S. 1871 in the Senate, incorporate the President's recommendations.

This analysis, prepared by the Coalition for a Fair Minimum Wage, answers some of the most-often asked questions about the federal minimum wage. The Coalition, which comprises organizations and individuals who believe all workers deserve a living wage for their labors, is seeking enactment of H.R. 3744 and S. 1871, the compromise bills proposed by President Carter. The AFL-CIO urges that they be passed immediately and without damage from crippling amendments.

The Chamber of Commerce says business doesn't want to pay a higher minimum wage. On the other hand, the AFL-CIO says workers need at least a $2.65 an hour minimum wage and supports the proposal to set the future wage at 53 percent of average hourly earnings in manufacturing.

What has happened to H.R. 3744 and S. 1871, the Carter bills on minimum wage?

H.R. 3744 passed the House Education and Labor Commmittee by an overwehlming 29-7 on July 19 and was supposed to go on the House floor the next week. But a filibuster, carefully coordinated by opponents of a fair minimum wage, kept it from a House vote before the Aug. 5 recess. Meanwhile, hearings opened in the Senate on S. 1871. Like the House bill, it will be coming to a vote when Congress reconvenes after Labor Day.

publication, CHR Series P-60, No. 105, "Consumer Income," gives the distribution of female earners, fulltime by number of weeks worked, with different dollar earnings. Table 58 of this report shows that 3,342,000 women earned less than $5,000 at fulltime year round jobs. This table does not show, however, that these women lived in or supported families containing four persons, or that they were poor. That they could not all have been poor is indicated by the data of the Poverty Status report discussed in the paragraph above. I believe that this error is extremely serious. The four million figure is dramatic and sounds convincing. If it is picked up and reported, especially by women's organizations, it will be believed by people who have no way of checking the primary sources. Quite aside from the minimum wage argument, this kind of misinformation can only be described as totally irresponsible.

The first paragraph describes an income of less than $10,000 as "the 'austere' budget for a family of four." The reference is to the "hypothetical budgets developed by the Bureau of Labor Statistics for an urban family of four." (Monthly Labor Review, July 1977, p. 35, article on family budgets by Louise McCraw.) Nowhere in the specifications of the budget or the description of its meaning does the word "austere" occur. The Bureau of Labor Statistics disclaims any attempt to define any absolute level of living: it calculates three budgets, designated as "lower, intermediate, and higher." Another explanatory note, published with every reference to these budgets, states: "The budgets pertain only to an urban family with the specified characteristics. No budgets are available for rural families. The budgets are not intended to represent a minimum level of adequate income or a subsistance level of living." (MLR,

July, 1977, p.39)

To compare the dollar income figures for a very limited group of families, described as above, with the majority of women in the workplace is misleading. To suggest that all husbands with an annual income of less than $10,000 provide family incomes at an "austere" level is also misleading. First, for the 47 million husband-wife families, 17 million contain only those two people, and another 10 million consist of only 3 people. An income calculated for four will, therefore, be higher than that for a smaller number of people. Second, to use the word "austere" with the quotation marks mean that it came from some other source than the piece in which appears. The value judgement contained in this phrase is not identified.

Exhibit B occurs in a publication, "Fact Sheets on Minimum Wage", undated, distributed by the Coalition for a Fair Minimum Wage. The sources and reliability of the numbered items require the following comments.

1) See previous analysis of the term "austere". The notion of "having to work" is itself a value judgement, which is not made clear. Does it apply to men in the laborforce? To married men in the labor force? If the answer is yes, then why should the phrase be used for women?

2) Correct. This figure is confirmed by the publication "Characteristics of the Population Below Poverty Level: 1975" CPR Series P-60, # 106. But that publication contains data (Table A-2, p. 198) On 120 <u>different</u> income figures, each dollar sum representing "poverty level in 1975" for a <u>particular type</u> of family. For example, the poverty level income for a single female, under 65 years of age, living in nonfurm areas, was calculated at $2,683.

Coalition for a Fair Minimum Wage

815 16th Street, N.W. • Washington, D.C. 20006 • (202) 637-5372

Recent studies have concluded that adult females are the main beneficiaries of increases in the minimum wage.

1) Over 25 million women, 67% of the women in the work force, worked because they had to in 1975, according to data from the Bureau of Labor Statistics. Either they were heads of families or the sole support of themselves or they were helping their husbands supplement an annual income of under $10,000, which is the "austere" budget for a family of four as defined by the Labor Department.

2) At least eight million of all adult women live in poverty -- as poverty is defined by the Government.

3) In 1975 about four million women worked full-time, year-round at rates below the then poverty level of $5,500.

4) Of the 2,430,000 female heads of families with incomes below the poverty level, 41.8 percent, or 1,004,000 are black.

5) There are about three million Americans covered by the Fair Labor Standards Act who are earning the current minimum of $2.30 an hour -- and two million of those are women.

Fact Sheet on Women and the Minimum Wage

Official government estimates indicate that some 3 million workers were paid at or within 5 cents of the present minimum wage of $2.30 an hour at the end of 1976. The government does not have any figures on the number of women included in the 3 million total. However, a conservative estimate of the number of women earning the minimum wage can be derived by reviewing the jobs held by women and determining when these jobs first came under the Fair Labor Standards Act.

As of the end of 1976, 20,969,000 women were subject to the minimum wage provisions of the FLSA. Of these:

13,175,000 were covered prior to 1966
5,617,000 were covered by the 1966 Amendments to the FLSA
2,177,000 were covered by the 1974 Amendments to the FLSA

If we apply the official ratios of workers earning less than $2.35 an hour to each of these categories - we would estimate that about 2 million of the 3 million minimum wage workers are women.

What the 8 million figure refers to, then, is 8 million women, living in different circumstances, defined as poor according to the poverty income designated as appropriate for each type of circumstances.

3) This is totally false. "The then poverty level of $5,500" refers to the figure in Table A-2 of $5,569, which refers to the poverty income for a four-person family with a male head, or to the poverty level income for a four-person family with a female head of $5,347. (If it is the latter, it should not have been rounded up to $5,500,but to $5,400.) The fulltime year round women workers who earned less than $5,500 did number about 4 million, but they were not all poor, or they would have been so designated in the publication analysing the population below the poverty level. In fact, only 444,000 poor women worked full time all year round. If we take this statement, and the next, to refer to families below the poverty level (again, each family designated as poor on the basis of the income level applicable to that type and size of family), further misrepresentation appears.
Of the 2,430,000 families below the poverty level who depend upon a woman, only 461,000 contain four persons. (563,000, of them contain more than 4 persons.) More to the point, only 629,000 of these women were employed at all, and only 132,000 worked fulltime year round. Again, this is a very different figure from the 4 million claimed in the article.

wellesley college

The Honorable Harrison A Williamschair
Senate Human Resources Committee
352 Russell Senate Office
Washington, D. C.

Dear Senator Williams:

The testimony on the minimum wage bill, Senate 1871, should contain some analysis of the totally misleading information given by many witnesses about poverty. As a small effort to remedy this defect, I attach a copy of a letter published by six leading papers during the past two weeks.

Sincerely yours,

Carolyn Shaw Bell

Carolyn Shaw Bell,
Coman Professor of Economics

On the Minimum Wage and Poverty

To the Editor:

News items about the minimum wage have repeatedly quoted a figure of $2.93 or "about $2.95" per hour as the "Federally established" poverty line. In fact, no such poverty figure on a per-hour basis exists. By including the valid statement that 3 million workers earn the minimum wage or that 6 million earn less than $2.65 hourly, such reports give a totally erroneous picture of widespread poverty among workers at the minimum wage.

Poverty concerns income, not wages, and poverty varies according to the number of people living on a given income. That is why the "Federally established poverty line" consists of 124 different dollar sums, each for a different size of household living under different conditions. It follows that no single hourly wage can be either above or below "the poverty level" — it all depends on whom that wage-earner is supporting.

The $2.95 per hour quoted comes from dividing the annual poverty-level income for a four-person family by 2,000 hours—the normal work-year. But there are less than 4 million four-person families in the country supported by one worker, and there is no evidence that they are all in poverty. Of the families of all sizes supported by one worker, 2 million fell below the poverty level in 1975, but there is no evidence that raising the minimum wage would help them all. To equate an hourly wage that applies to all workers, who may be single or living in a family with other workers, with the minimum income for four-person families is just plain wrong. The battle to raise the minimum wage should not be fought on the grounds of poverty.

CAROLYN SHAW BELL
Katharine Coman Professor
of Economics, Wellesley College
Wellesley, Mass., July 14, 1977

The Times welcomes letters from readers. Letters for publication must include the writer's name, address and telephone number. Because of the large volume of mail received, we regret that we are unable to acknowledge or to return unpublished letters.

COMMITTEE ON
HUMAN RESOURCES
1977 AUG 23 PM 4 27

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AMERICAN HOSPITAL ASSOCIATION
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WASHINGTON OFFICE

STATEMENT OF THE AMERICAN HOSPITAL ASSOCIATION
ON S.1871, THE FAIR LABOR STANDARDS AMENDMENTS OF 1977
BEFORE THE SUBCOMMITTEE ON LABOR OF THE
SENATE COMMITTEE ON HUMAN RESOURCES

August 25, 1977

The American Hospital Association represents some 6,500 member institutions (including most of the hospitals in the country, long-term care institutions, mental health facilities, and hospital schools of nursing), and more than 24,000 personal members. We appreciate the opportunity to present the Association's position on this legislation. The Fair Labor Standards Amendments of 1977, S.1871, would increase the present $2.30 federal minimum wage to $2.65 per hour effective January 1, 1978. Effective January 1, 1979, S.1871 would provide an automatic annual adjustment of the minimum wage to 52 percent of the previous year's average straight time hourly earnings level in manufacturing, and as of January 1, 1980, to 53 percent. Annually thereafter, the minimum wage would automatically be adjusted to 53 percent of the average straight time hourly earnings level in manufacturing.

Mr. Chairman, let me state at the outset that the AHA in its Policy Statement on Employee Relations for Health Care Institutions has publicly endorsed the principle of paying hospital employees equitable wages. The statement says health care institutions should provide "Fair and equitable compensation that is competitive with community standards for wages and benefits," and maintain "equitable compensation levels among all employees, with compensation based on skill, ability, and job requirements." However, because of the concerns of hospitals and government about the escalating costs of hospital and

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medical care, it is absolutely essential that Congress and the public appreciate the impact that enactment of this bill would have on the nation's health care institutions. Such an increase in the minimum wage could only aggravate the rising cost problem and deepen the concerns of government, the health care industry, and the public. In addition, these rising costs, along with proposed controls on increases in hospital revenue, could result in unemployment and the cutback of health services in areas of critical need.

Cost Impact

The hospital industry, which presently employs some three million workers, is highly labor intensive and expends 50 to 65 percent ($28 billion) of its total operating budget for employee compensation. Thus, a substantial increase in the minimum wage would have a heavy and far-reaching impact upon hospital costs.

At the present time, financial restraints on the hospital industry imposed by government and other third-party payers are having a significant impact. For example, a number of states have imposed a freeze on the level of Medicaid reimbursement to health care institutions. Others have placed a "cap" on levels of reimbursement. As a result, many hospitals that serve large numbers of Medicaid patients already are at or near fiscal insolvency because, in many cases, the cost of providing services to those patients exceeds the amount of reimbursement. Further, the Administration has proposed and the Congress is considering other legislation placing a "cap" on increases of inpatient revenues of hospitals which would reduce the amount of such payments from all sources by $3.4 billion in Fiscal Year 1978, according to a recent estimate by the Congressional Budget Office. These actions can only intensify the already critical financial status of many hospitals.

Therefore, Mr. Chairman, during a time when government is placing increased emphasis on fiscal restraint for the hospital industry, this proposed legislation's impact on hospital

costs should be understood. To clarify the point, under the timetable the bill proposes and at the rates specified, the present $2.30-an-hour minimum wage would be increased to $2.65 per hour--a 35 cent-per-hour or 15.2 percent increase as of January 1, 1978. In the next step, on January 1, 1979, the minimum wage would be further increased to a rate equal to 52 percent of the average United States manufacturing hourly rate. Assuming that the manufacturing hourly rate remains at the current level, the minimum wage would then be increased to $2.89 per hour--an additional 24 cents per hour or a 9.06 percent increase. Assuming the continued current rate of increase in the manufacturing industry hourly wage, as of January 1, 1980, the minimum wage would be further increased to $3.15 per hour--an additional 26 cents per hour or a 9 percent increase. In total, the increase by January 1, 1980 would be 85 cents per hour or 36.95 percent over the present minimum wage.

An increase in the minimum wage results in overall inflation in labor costs throughout the country which can be attributed to two factors. The first is that of adjusting wages of workers whose wage levels are below the new hourly minimum wage. The impact will vary, given the differing average wage levels in various regions of the country. Typically this factor most significantly affects rural areas of the country and some areas of the South and West.

The second factor, resulting from compression of the wage structure, is by far the more significant, although its effect is not as immediate. Wage compression results from the substantial upward adjustment of wage levels in the lower part of the wage structure to a point at which the wages of formerly relatively lower paid workers begin to substantially overlap the wages of workers with greater skills, training, and responsibility. This results in severe problems of economic equity which pressures employers to adjust wages throughout the entire range of their wage structures in an upward direction.

The larger the adjustment of the minimum wage and the greater the compression of the wage structure, the greater and more immediate becomes the adjustment by employers. This adjustment is known as the "ripple" effect.

The ripple effect is particularly strong in service industries in which average wage levels are relatively lower than those of some other industries. As a result, while the effect would be regionally differentiated in the hospital industry, the ripple effect would mean a substantial increase in total manpower costs in the industry, especially if the minimum wage adjustment were to be as large as the 36.95 percent increase reflected by an adjustment to $3.15 per hour. For example, the minimum wage adjustments which would occur in 1978 and 1979 under the provisions of the current bill would increase total hospital industry labor costs in excess of $2 billion between January 1, 1978 and December 31, 1979. This is an increase of almost 10 percent in total hospital industry labor costs over the two-year period and is in addition to increases in total hospital industry labor costs resulting from normal wage adjustments. The ripple effect impact could be even larger, given the greater wage compression which will occur in hospitals in some areas of the country. Increases in labor costs will continue at this high level in the future if the minimum wage is adjusted automatically.

The nature of a hospital's workload is one of peaks and valleys, with patient loads fluctuating daily and seasonally. Staffing for peak loads is neither economically feasible nor administratively advisable. Therefore, many hospitals must deal with such fluctuating workload increases through overtime work for their employees. The substantial costs for overtime work at premium rates would be directly affected by an increase in the minimum wage.

Other additional costs resulting from an increase in the minimum wage relate to employee benefits to which the employer contributes. These include Social Security, pension, life

insurance, health insurance, and the like. In most cases, the amount of employer contributions is related to the amount of compensation received by the covered employees. As their compensation increases, so does the amount and scope of their benefits, with a corresponding increase in employer contributions. Currently, hospital health and welfare benefits equal 13 percent of wages and salaries, and are projected to increase to 15 percent by 1978 without any change in the minimum wage. Clearly, the rate of increase in costs for employee benefits would be accelerated if S.1871 is enacted.

Finally, because of the steadily increasing compensation rate of nonexempt employees that S.1871 proposes, and the resulting compression of exempt and nonexempt wages, it is likely that the U.S. Department of Labor will soon find it appropriate to increase the salary tests for exempt employees, as it did in April 1974. At that time the salary tests for exempt employees covered by the Fair Labor Standards Act were increased as follows: professional employees, from $140 per week to $170 per week; and administrative employees, from $125 per week to $155 per week. An increase in the exempt employees salary tests would add again to hospitals' labor costs. The Congress must recognize that an arbitrary limit on hospital revenues, accompanied by government policy substantially increasing labor costs, will result in fewer jobs and less service to patients.

In addition, tying adjustments in the minimum wage to an automatic index results in institutionalizing wage adjustments and eliminates the possibility for government policymakers and the public to evaluate the inflationary impact of minimum wage adjustments in conjunction with other economic policies. This is especially important given the Congress' concern over rising health care costs. The American Hospital Association is particularly opposed to basing any such index on wage levels in the manufacturing

industry. Manufacturing wages have historically increased at the most rapid rate compared to wage levels in other industries. Tying minimum wage adjustments to an index based on wage adjustments in manufacturing would accelerate an inflationary process throughout the entire United States wage structure.

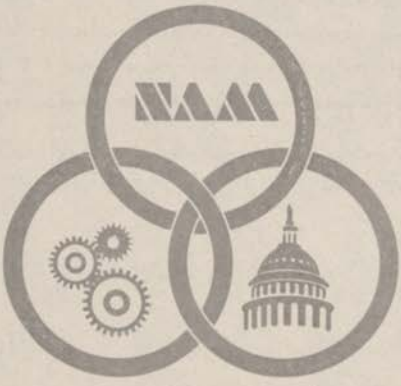
In summary, while hospital employees must be compensated in a manner consistent with other employees in the community, it is essential that Congress and the public recognize the impact of this legislation on hospital costs. The Association shares the public and governmental concerns in this matter, and has established as one of its major goals an extensive effort to encourage the containment of costs by its member institutions. A substantial increase in the federal minimum wage would further increase hospital costs. In addition, increased hospital costs combined with caps on hospital revenues can only cut back on the availability and quality of health care for patients, and the personnel necessary for the delivery of health services. Moreover, the AHA is strongly opposed to linking minimum wage adjustments with automatic indexing to any specific industry and suggests that an equitable rate, based upon current economic indices, be established and adjusted by Congress periodically as has been the practice in the past.

Mr. Chairman, we appreciate this opportunity to express our views and recommendations on S.1871.

National Association of Manufacturers

Statement of the
National Association of Manufacturers
on
Amendments to the Fair Labor Standards Act
to the
Subcommittee on Labor
of the
Senate Human Resources Committee

August 12, 1977



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Statement of the
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on
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of the
Senate Human Resources Committee

The National Association of Manufacturers is a voluntary, non-profit business organization whose membership includes companies of all sizes. Its members, who employ over 75% of all employees in industrial corporations, are vitally concerned with the far reaching nature of proposals to raise the minimum wage as embodied in S. 1871.

Any proposal for a statutory increase in the minimum wage undoubtedly evokes a substantial amount of interest among NAM's membership, particularly its smaller affiliated organizations. But S. 1871 is of particular significance because of the means by which it recommends that future increases in the minimum be determined -- "indexing", that is, linking the movement of the minimum to changes in an economic index. While the bill does provide for an initial specific increase in the minimum wage (to $2.65 in 1978), it also calls for the eventual linking of the minimum to an index of earnings of non-supervisory employees in manufacturing--first at 52% of the index in 1979, and then of 53% beginning in 1980. According to Department of Labor projections, this would raise the minimum to $2.89 in 1979 and $3.10 in 1980.

In this statement, we shall attempt to highlight the economic consequences of such a change in the minimum as well as the shortcomings associated with the proposed linking of the minimum to the index of earnings in manufacturing employment.

The NAM opposes any unreasonable increase in the minimum wage at this time. While we recognize that spiraling inflation has substantially reduced the purchasing power of wage earners, and that an increase in the minimum would work to offset this, we also recognize the serious adverse economic impact which an excessively high minimum wage rate has on inflation and the employment of teenagers, minority group

individuals and inexperienced and low-skilled workers in the U. S.

But even more importantly, we disagree most strenuously with the proposal for automatic adjustment of the minimum. If enacted, such a provision, in our view, would severely multiply the adverse economic impact endemic to any increase. Moreover, indexing the minimum wage would constitute a serious dereliction of duty on the part of Congress. Our lawmakers are now properly compelled to review the minimum on a periodic basis. Enactment of an automatic adjustment mechanism precludes the necessary consideration of the many factors which come into play in determining such a wage level. To ignore those factors would constitute a shirking of legislative responsibility, not to mention a major public policy error.

I. INCREASE IN THE STATUTORY MINIMUM WAGE

A. Adverse Effects on Employment

We contend that the proposed increase in the statutory minimum wage will cause increased unemployment. The conventional rationale for any minimum wage is that its inflationary impact and the damage it does to small and marginal businesses is justified by its benefits for the low-wage earner. But the evidence increasingly points to the fact that significant increases in the minimum wage are more likely to bring the low-wage worker unemployment, rather than a higher standard of living.

John M. Peterson and Charles T. Stewart, in their landmark study, "Employment Effects of Minimum Wage Rates," outline economic evidence leading to the conclusion that minimum wage increases have adverse effects on employment, and that these effects are visited most heavily on the poor, who can afford them least, while benefiting workers with higher incomes who are already more advantaged. One of their conclusions is particularly apt here:

> Both theory and fact suggest that minimum wage rates produce gains for some groups of workers at the expense of those that are the least favorably situated in terms of marketable skills or location.

> Within low-wage industries, higher-wage plants gain at the expense of the lowest-wage plants. Small firms tend to experience serious profit losses and a greater share of plant closures than large firms. Teenagers, non-whites, and women (who suffer greater unemployment rates than workers in general) tend to lose their jobs, to be crowded into less remunerative noncovered industries, and to experience more adverse changes in employment than other workers. Depressed rural areas, and the South especially, tend to be blocked from opportunities for employment growth that might relieve their distress. Given these findings, the unqualified claim that statutory minimums aid the poor must be denied. The evidence provides more basis for the claim that while they help some workers they harm those who are the least well off. 1/

Another mistaken notion is that all businesses are capable of absorbing minimum wage increases. On the contrary, many marginal firms, employing substantial numbers, are forced to pass the consequences of the cost increase on to employees in the form of reduced hours of work or increased automation, and to consumers in the form of price increases and reduced quality of service. Naturally, reducing man-hours leads to the lay-off of employees; a company's inability to compete in price and service may lead to its extinction. The net effect is an increase in employment.

The fact is clear: This upward revision of the statutory minimum wage would destroy jobs in low-wage industries and low-wage areas. The only question which can be debated is whether society would be better off if job opportunities of that type were eliminated.

It is our contention that both the individual job-seekers directly concerned, and society at large, would be damaged by any such approach. Our labor force cannot afford to do without the job opportunities of which they would be deprived by the innovations in the Fair Labor Standards Act proposed in S. 1871. A substantial fraction of those who are ready, able and willing to work would be deprived of the

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1/ John M. Peterson and Charles T. Stewart, "Employment Effects of Minimum Wage Rates", American Enterprise Institute for Public Policy Research, (1969), p. 155.

chance to live by their own efforts and forced to live on public largesse.

The realistic choice is not between lower-paid jobs and better-paid jobs. It is between the lower-paid entry-level jobs and no jobs at all.

B. Adverse Effects on the Disadvantaged

This leads to our second point: the employees most affected by these developments would be those who generally lack marketable skills and have the most difficulty finding substitute employment. It is a hard fact of life in today's economy that little demand exists for unskilled labor. The minimum wage has the effect of further reducing the marketability of unskilled labor.

This point is further supported by economists Marvin Kosters and Finis Welch in their study entitled, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment." This study focused on the employment problems of teenagers, who traditionally constitute a large percentage of the nation's unemployed. Kosters and Welch concluded that:

> Minimum wage legislation has had the effect of decreasing the share of normal employment and increasing vulnerability to cyclical changes in employment for the group most 'marginal' to the work force--teenagers. Thus, as a result of increased minimum wages, teenagers were able to obtain fewer jobs during periods of normal employment growth and their jobs were less secure in the fact of short-term employment changes . . . . A disproportionate share of these unfavorable employment effects appears to have accrued to non-white teenagers. The primary beneficiaries of the shifts in the pattern of employment shares occasioned by minimum wage increases were adults, particularly white adult males. 2/

Professor Welch, in recent testimony before the House of Representatives' Subcommittee on Labor Standards revealed even more telling evidence of the impact of minimum wage hikes on teenage unemployment. He estimates, for example, that following an increase in the minimum, for each percentage point increase in the

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2/ Marvin Kosters and Finis Welch, "The Effects of Minimum Wages on the Distribution of Changes in Aggregate Employment", American Economic Review, (June, 1972) p. 330

cost of hiring, employment of 18-19 year olds falls by 1.35 percent, employment of 16-17 year olds falls 2.4 percent, and employment of 14-15 year olds falls 4.0 percent. In fact, he has found that minumum wages have reduced total teenage employment by as much as 40 percent in low wage states, such as Arkansas, and by about 15 percent in high wage states, such as Illinois and New Jersey, where the effect is least.

Thus, we see that the minimum wage increases proposed by S. 1871 would hurt those it most intends to help--the unskilled as well as the disadvantaged and the poor--and would widen the employment gap between those people and those already better situated.

C. Faulty Timing

Our third objection to the proposals is related to the timing of the proposed increases. Several recent studies continue to indicate the serious disemployment effects resulting from past increases in the minimum wage. 3/ A common emphasis in most of these studies is that the magnitude of the adverse employment effects varies with the size of the increase and the health of the economy at the time of its institution. Previous increases have been gradual and have been instituted in times of relative economic growth and higher employment rates. S. 1871, through its indexing proposal provides for a quantum jump in the minimum wage, and provides this at a time when unemployment is still high and when our economic recovery appears to be foundering; thus, the negative effects of this increase at this time would be especially pronounced.

D. Ripple Effect

Fourth, the rise in the minimum wage itself cannot be considered apart from its "ripple effect", which has traditionally operated to drive up the wages in higher-pay brackets in order to maintain a customary percentage differential

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3/ Robert S. Goldfrab, "Quantitative Research on the Minimum Wage", Monthly Labor Review,(April, 1975), pp. 44-46.

between the minimum wage and the wages of more highly-skilled employees. In view of the almost 35 percent increase in the minimum wage that the bill would bring about, employers would have few alternatives other than comprehensive readjustment of their employees' wage levels. Such rippling would result in a continuing upward spiral of the consumer price index, which under S. 1871 would, in turn, cause further increases in the minimum wage with its attendant inflationary effects.

E. Adverse Effect on Consumer Prices

Finally, it is clear that the consumer (which describes every member of the labor force) will be the loser in the event that this bill is passed. An employer must pay his labor force out of the proceeds from the sales of his goods or services. Such a drastic rise in labor costs would necessarily entail an increase in the price charged for these goods or services. According to economist Edward M. Bernstein,

> Between the fourth quarter of 1972 and the fourth quarter of 1973, the Consumer Price Index rose by 8.4 percent, while the implicit price deflator of the gross product of non-financial corporations rose by 4.6 percent. Of this rise, 85 percent was caused by the increase in labor compensation per unit of output . . .

Bernstein concludes that an upward wage adjustment "could not come from capital consumption allowances, indirect business taxes or interest. Very little of it could come from profits, as their share in output has declined considerably in recent years. As a practical matter, the increase in wages would have to be accompanied by an almost equivalent increase in prices." 5/

II. INDEXING THE MINIMUM WAGE

S. 1871 provides that, beginning in 1979, the minimum wage be adjusted annually according to the movement of an index of hourly straight time--earnings for non-supervisory employees in manufacturing--in other words, "indexing" the minimum wage. More specifically, it sets the minimum at 52% of that index through

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5/ Ibid

1979, and then raises it to 53% of the index in 1980 and presumably, thereafter.

The rationale for linking the minimum wage to the index of earnings of production workers in manufacturing is that the minimum should reflect general wage movements in the economy as a whole. But, in fact, an automatic adjustment mechanism based on that index could work to the detriment of both those who would receive the minimum, as well as those who would pay it.

For one, the index itself does not necessarily reflect economy-wide wage patterns, since it is a measure of earnings in only one economic sector, a sector that is reasonably well-paid and highly unionized. It does not include data from the construction or retail trade sectors, and, most notably, the service sector, which probably offers most of the employment opportunities for the marginal workers to whome the minimum would apply.

Presumably, increases in the earnings of manufacturing employees would reflect increases in productivity in manufacturing, and an increase in the minimum for that sector could be absorbed without much displacement. Yet, the increase in the minimum would be applied to almost all other sectors,some of which typically lag behind manufacturing in productivity. In those sectors, indexing would inevitably result in increased unemployment, since their productivity increases do not permit them to absorb the total wage increase.

In addition, using a wage level to adjust a wage level amounts to something approaching circular reasonsing. Should this indexing adjustment be adopted, when the wage level moves, the minimum wage would move, which would, in turn, affect other wages because of their relationship to the minimum (i.e., the ripple effect). Those increases, in their turn, would escalate the general wage level and generate another round of increases. To compound the perpetual motion machine even further is that the index of earnings in manufacturing includes cost of living adjustments, which likewise, bring about automatic hikes in the index. The entire "feedback" link would undoubtedly exacerbate the inflationary and unemployment consequences

that accompany any rise in the minimum.

Furthermore, indexing would imperil recovery from economic slowdowns, such as the one we just recently experienced. During that major recession, unemployment levels rose sharply. As always, minorities, unskilled men and women, teenagers and the disadvantaged generally--i.e., the groups most directly affected by the minimum wage--have suffered more than others from the rise in joblessness. At present, we appear to be recovering from that recession and can look for an improvement in employment conditions. But the possibility of further acceleration in inflation could well blunt the thrust of economic recovery.

Now is not the time to set in legislative concrete a mathematical formula for increasing the statutory minimum wage at regular intervals. This could be the vehicle for spreading and accelerating the inflationary process, thereby aborting the recovery. It would also work to the detriment of the very groups it is intended to protect--the unskilled and disadvantaged persons at the lower fringe of the work force.

The NAM is unalterably opposed to any such mechanical adjustment in the minimum wage specified by law, regardless of the index employed or the percentage chosen as the base point. Congress, as part of its oversight responsibility with respect to the Fair Labor Standards Act, was charged with carefully reviewing the legislative standards on a periodic basis. An automatic adjustment process would render that responsibility meaningless. To implement such a process disregards the fact that establishing a minimum wage is, ultimately, a policy decision, and that Congress should reconsider the policy every few years, equipped with whatever new evidence or political views have accumulated in the meantime.

Indeed, the basic problem with any sort of indexing of an economic variable or measure is the arbitrary nature of such a device. An increase or decrease will take place under specified circumstances, regardless of the economic or social

consequences. For example, the increase in labor cost resulting from a hike in the minimum could work to offset or nullify any efforts by the Federal government to stimulate employment. In addition, efforts to stabilize prices may fail if wage cost pressures are automatically escalated as a result of the application of an index.

A judgement by the legislative or executive authority, however, could give recognition to all the existing circumstances. Consideration can be accorded to not only the timing of the charge, but also its quantitative aspect. It would be irresponsible to allow an index to automatically dictate an adjustment without the ability to weigh the pros and cons of a change. If indexing of the minimum is adopted, we are admitting that our political processes can't be relied upon to arrive at appropriate judgements on such an important matter.

Moreover, history reveals that once an index relationship is established, it is difficult to undo. The recent indexing of social security and federal retirement benefits is a fresh example.

This is not to say that the statutory minimum wage, once it is set, should never be altered. Obviously, a level set in one period could become unrealistic at a later date. But many factors have to be taken into account: the condition of the labor market; the effects of the existing minimum in limiting job opportunities for youths and the unskilled; consumer prices and the nature of the economic forces, domestic or foreign, which are affecting them, etc. All these are matters of judgement and interpretation, and we don't see how they can be subsumed in any such simplistic formula as proposed in S.1871.

We recommend that Congress retain in its <u>own</u> hands the determination of the timing and extent of any future adjustments in the statutory minimum wage. Legislative discretion in such a vital matter should not be surrendered to the statisticians.

AMERICAN CYANAMID COMPANY
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DON A. GOODALL
WASHINGTON CORPORATE
REPRESENTATIVE

August 19, 1977

Honorable Harrison A. Williams, Chairman
Subcommittee on Labor, Human Resources Committee
Room G - 237 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Williams:

Enclosed is a statement by American Cyanamid Company for inclusion in the record of hearings on S. 1871, the "Fair Labor Standards Amendments of 1977".

Sincerely,

Don A. Goodall

DAG:dns
Enclosure

PP-551 (2)

8/8/77

STATEMENT OF AMERICAN CYANAMID COMPANY

WAYNE, N.J.

REGARDING S.1871,

"FAIR LABOR STANDARDS AMENDMENTS OF 1977"

BEFORE THE SUBCOMMITTEE ON LABOR

OF THE

SENATE HUMAN RESOURCES COMMITTEE

98-912 O - 78 - 57

Cyanamid is opposed to the minimum wage indexing plan that is part of S.1871, "Fair Labor Standards Amendments of 1977", introduced by Senator Harrison A. Williams of New Jersey. The bill provides for automatic changes in the minimum wage to reflect increases in the average hourly wages of manufacturing workers. Proponents of such an indexing system would have the minimum wage set at 51 per cent of the average industrial wage on January 1, 1978, at 52 per cent of the average industrial wage on January 1, 1979, and at 53 per cent of the average industrial wage on January 1, 1980 and thereafter.

Cyanamid's direct interest in the bill stems from our belief that a federally mandated, automatic increase in the minimum wage will add to the bargaining position of trade unions which represent skilled and semi-skilled workers and which seek to preserve a wide differential above the minumum wage for their members.

Cyanamid's average hourly wage in 1976 was $5.39, more than two-and-one-third times the present minimum wage. An increase to $2.65 will trigger pressures that could force our average hourly wage to $6.20 if the present ratio were maintained. Furthermore, under the minimum wage bill formula, our average hourly wage by 1980 would be $7.37 if the ratio is maintained when the minimum reaches the proposed $3.15.

This system, if adopted, will serve only to aggravate three of the most serious economic problems facing the United States today -- unemployment, inflation and lack of economic expansion.

While advocates of the indexing plan may be credited for efforts to assist those at the bottom of the pay scale, it is apparent that such a provision would adversely affect many minimum wage earners and teenagers just entering the labor market.

Rapid and frequent increases in the minimum wage requirements will add to unemployment. Mandated higher wages not tied to productivity increases will mean hardship for many. Labor-intensive businesses employing large numbers of unskilled or semi-skilled workers operating on narrow profit margins could be severely affected. Employees, rather than benefitting from pay hikes, could instead find themselves unemployed. More stable and capital-intensive businesses might find it more profitable to automate rather than increase payrolls.

Our inflationary problems will be exacerbated if the average minimum industrial wage dictates the level of the minimum wage across the economy.

Automatic increases in industrial wages have a direct impact on the prices of finished products. Indexing may cause the minimum wage to increase regularly with a resultant increase in the average industrial wage and, as a consequence, an increase in prices in the market place. Such upward pressure on consumer prices will make U.S. products less competitive in world markets.

Regular increases, coming about in the manner proposed, will cause inflation to feed on itself. Employers must pay their workers out of profits from the sale of goods or services. Wage increases not related to productivity mean a loss of profit, which must be recovered, usually through an increase in the price of goods and services provided.

Automatic minimum wage increases set into motion purely by statistical indices and without the deliberative actions of the Congress based on the circumstances affecting the total economy at any given time would be erecting a machine to perpetuate inflation. The inflationary spiral of higher wages, higher costs and higher prices would become an even more permanent part of the American economy.

In addition business, which is already short of investment capital, would have its ability to provide for expansion and new jobs further reduced as its payrolls rise, and will find it increasingly difficult to plan for the future because of fluctuating wage costs.

In the past, minimum wage increases have not occurred as frequently as would be the case if the annual adjustment called for by S. 1871 becomes reality. Between 1938 and 1976 the minimum wage was raised 11 times. If an indexing system had been in effect during those years, the constant increase in the minimum wage would have quickened further the inflationary spiral we have experienced.

Those advocating a minimum wage-average industrial wage tie see the measure as one to provide a constantly rising wage. No consideration is given to the possibility of the average industrial wage decreasing. In such a case, however, it would be highly unlikely that the advocates of indexing would support a reduction of the minimum wage.

Cyanamid does not advocate a static minimum wage. Obviously a standard established under one set of circumstances will eventually become unrealistic. Adjustments must be made, as in the past. But consideration must be given to several factors: the condition of the job market; the effects of the minimum wage on limiting job opportunities for youths and the unskilled; the movement of the Consumer Price Index as well as the average industrial wage.

The simplistic formula incorporated in S. 1871 does not take these factors into account.

According to research of the Chamber of Commerce of the United States, passage of such legislation would specifically:

-- Eliminate over 2 million full and part-time American jobs, offsetting government proposals for stimulating the economy which would add only about 1 million jobs.

-- Increase consumer prices by about 3 percent.

-- Expand the public sector at the expense of the private sector by reducing private employment and thereby encouraging public sector jobs, increases in welfare or income security programs.

-- Add to poverty.

-- Discriminate principally against minority, young, old and women workers by eliminating jobs and making them unemployable.

-- Increase wages for some workers at the expense of unemployment for others.

-- Permanently build-in cost-push inflation in future years by automatically increasing the minimum wage for each increase in manufacturing wages.

Close legislative examination of the pitfalls of this proposal should result in a decision against indexing the minimum wage.

# # # #

PEOPLES DRUG
PEOPLES DRUG STORES, INCORPORATED AND SUBSIDIARY CORPORATIONS
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SHELDON W. FANTLE
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

August 19, 1977

The Honorable Harrison A. Williams, Jr.
Chairman, Subcommittee on Labor
Committee on Human Resources
Russell Senate Office Building 352
United States Senate
Washington, D. C. 20515

Dear Senator Williams:

On behalf of Peoples Drug Stores, Incorporated (Peoples), please include in the record this statement in opposition to the indexing provision of the proposed amendment of the Fair Labor Standards Act (S.1871) when it comes before the Senate Subcommittee on Labor.

We understand this Bill is presently before the Congress.

Thank you for your consideration.

Respectfully,
PEOPLES DRUG STORES, INC.

Sheldon W. Fantle,
President and
Chief Executive Officer

SWF/llb

Enclosure

Earlier in this session of Congress, Peoples Drug Stores, Incorporated (Peoples), submitted comments to the Subcommittee on Labor Standards of the Committee on Education and Labor on H.R. 3744, The Fair Labor Standards Amendments of 1977. Since a vote on H.R. 3744 appears likely when Congress reconvenes, Peoples would like to reiterate its opposition to the indexing provision which would establish an indexing formula for all future wage increases.

Peoples feels a compromise measure to indexing should be sought as this type of averaging concept will result in extreme inflationary pressures. The automatic nature of this Bill will remove it from reasoned decisionmaking. It is heedless to create a mechanism which will increase wages even higher with no opportunity for Congress to temper such increases in light of their impact on the economy.

We agree with the National Association of Chain Drug Stores recommendation that a Presidential Blue Ribbon Study Committee be formed, consisting of members of the management, labor, government and educational sectors, whose purpose would include the researching of the most efficient and equitable means of providing an income distribution system for the unskilled laborer.

Peoples is continuously striving for quality health care services at a low cost to the consumer which is evidenced by our recent generic prescription program. Indexing the proposed wage increase will have an immediate and adverse impact on our ability to hold down such health costs. Additionally, the hiring of unskilled workers at unreasonably high wages at the entry level will cause costs to escalate.

In conclusion, Peoples believes that the net result of such an indexing formula in the retail chain drug store industry will be to increase health care costs and add to inflationary pressures making it less attractive for businesses such as ours to hire additional full-time and part-time employees.

Further, Peoples' management and myself personally and strongly urge that the indexing measure of H.R. 3744 not be approved.

Respectfully submitted,

PEOPLES DRUG STORES, INCORPORATED

Sheldon W. Fantle,
President and
Chief Executive Officer

Statement of the
Cotton Warehouse Association of America
Presented to the
Senate Committee on Human Resources
Fair Labor Standards Act
August 15, 1977

The Cotton Warehouse Association of America has members in all of the major cotton producing states and represents warehouses handling a large part of the U.S. cotton crop. These warehouses receive cotton bales from the gin, issue receipts, sample, weigh, store, break out and ship them to textile mills upon order from their customers.

Warehousing accordingly is an essential service in the flow of the crop from the farm to the textile mill. Disruption of this service would impede this flow, adversely affecting the operations of those depending on it and weakening cotton competitively.

The cotton warehouse industry views the proposed minimum wage increase -- and particularly the indexing provision that would provide for automatic hikes -- as a serious threat to the efficient and orderly flow of cotton from farm to mill. It poses an impending crippling blow that might well break the back of an industry engaged in a losing battle against constantly rising costs and unabated inflation.

In years past, the inflow of cotton into warehouses stretched over a period of several months and bales remained in storage much longer than today. Now, mechanization has shortened the harvesting and ginning season to the extent that the crop moves from gin to warehouse in a 12-week period. The heavy demand for cotton has accelerated shipment from warehouses during this same period of heavy influx, thus taxing their ability to maintain an orderly flow. The problem of maintaining an adequate labor force for this relatively short peak period has become increasingly more complicated.

Since coverage of the Fair Labor Standards Act was extended to agriculture in 1966, there has been a continuing loss of on-the-farm jobs in the cotton producing states. They were jobs where productivity was too low to justify continued employment at higher wages. These are the same type workers that are employed in warehousing.

Most cotton warehouses are located in small towns around which a substantial portion of the cotton crop is grown. Labor shortages in these communities necessitate filling of work crews with many people of limited skills who otherwise would be unemployable.

Quite a few of these workers are women who can arrange their hours to assure a minimum disruption of home activity. Some work only when they want to. Very few will work on Saturday or Sunday. Many will not work on Monday. Many prefer to work twelve hours a day for a day or two and lay off, rather than to be steadily employed eight hours a day.

While this work is offered primarily during the peak periods of the fall it, nevertheless, represents a substantial source of income and is welcomed by workers and the communities where they live.

An automatically-increasing minimum wage without regard to productivity or other factors would knock these folks off the payroll fast. It would force a reevaluation of employment in cotton warehousing and a consequent cutback without regard to humanitarian factors. Loss of these jobs would speed up even further the migration of the unskilled to our already crowded cities. Workers, warehouses, the cotton industry and all would be the losers.

A disturbing aspect of the wage indexing proposal is that it surrenders to an administrative agency indefinitely the prerogative of Congress to reevaluate and debate the need for changes in the minimum wage. We fear the

trend to more and more government by regulatory agencies and their insulation from the will of the people - a will formerly exercised through their duly elected representatives. Agriculture's experience with the edicts of OSHA, EPA and a myriad of other agencies is making it increasingly wary of providing them with broad automatic mandates such as that suggested by wage indexing.

Automatic wage increases through indexing would make inflation a permanent part of the American economy. Like a snowball rolling downhill, it would gather momentum and size as it rolled along.

Since the index is the hourly manufacturing wage, an increase in the minimum would hike the manufacturing wage. This in turn would raise the minimum wage -- and so on and on.

The recognized pattern whereby higher paid skilled workers maintain a historical difference between the wages and the minimum would further boost the average hourly wage. This, in turn, would lead to still another increase in the minimum wage the following year and the additional pressure to raise the wages of higher paid employees again just to maintain the differential. Low paid jobs would be traded for a few high paying jobs, worsening the plight of the unskilled.

According to the U.S. Chamber of Commerce, the minimum wage proposal would result in the loss of 830,000 jobs, including 391,000 teenage jobs, at a time when 18.6 percent or 1,760,000 teenagers are out of work. Other estimates indicate job losses could range as high as one million.

In summary, an increase in the minimum wage with automatic increases indexed to the hourly manufacturing wage would: (1) have a tremendous inflationary effect on the economy, (2) surrender to a regulatory agency the congressional authority to mandate the minimum wage, (3) swell the list of

unemployed, (4) eliminate work opportunities for teenagers and add to critical social problems in this area, (5) disrupt the cotton warehousing industry when it is hard pressed to provide its essential services, (6) result in a work force cutback for many people who could not find jobs elsewhere, (7) depress the economy of small communities where cotton warehousing is concentrated, (8) increase the cost of marketing cotton, and (9) jeopardize the ability of U.S. cotton to compete with man-made fibers and foreign growths.

STATEMENT ON PROPOSED AMENDMENTS TO THE FAIR LABOR STANDARDS ACT (S1871) SUBMITTED BY THE SHADE TOBACCO GROWERS AGRICULTURAL ASSOCIATION

The Shade Tobacco Growers Agricultural Association is particularly hard hit by proposed changes in the Fair Labor Standards Act increasing the minimum wage and removing the overtime exemption which Congress voted for shade tobacco in 1961. This exemption was enacted as a necessary clarification of a U.S. Supreme Court decision to make clear that its harvesting operations were "agricultural" and entitled to the overtime exemption given to the rest of agriculture. The Court's ruling apparently had eliminated many of the operations in the harvesting of shade tobacco which historically had been part of the field and shed activities (as distinct from its processing operations in the warehouse) from the agricultural overtime exemption. Congress, in its wisdom, thus felt it necessary to provide a special exemption by law to make clear that these historic harvesting operations which the industry had carried on for many years were, and are, indeed an "agricultural" entity and entitled to the exemption, like all of agriculture.

It should be understood that the Shade Tobacco Growers Agricultural Association does not believe that it should be treated differently from the rest of agriculture and it has never sought special treatment for the shade tobacco industry. The earlier exemption which the Fair Labor Standards Act provided from both wage and overtime provisions for shade tobacco was put into the law at the request of growers of shade tobacco in Georgia and Florida, most of whom have gone out of the shade tobacco business. Although entitled to do so, members of the Shade Tobacco Growers Agricultural Association never made use of this exemption and did not oppose its removal when the 1974 amendments were pending. In fact, throughout the period when this special exemption was in effect, wages paid by members of the Shade Tobacco Growers Agricultural Association to both adult and youth workers were above the minimum set by law and were among the highest in agriculture. The Association has often, in the past, won national commendation for its enlightened labor policies, its model labor camp, its only state licensed hospital for agricultural workers in the nation, and its special youth programs.

As an industry spokesman, the Shade Tobacco Growers Agricultural Association does not seek special treatment or exemption now, but asks only equity with the rest of agriculture. Several of the named activities, curing and drying included, in the 1961 exemption are actually agriculture in nature. These activities occur on the farm immediately following the picking of the individual tobacco leaf. The picked leaf is transported directly to the curing sheds and must be handled in the sheds within a few hours after it is picked. The curing and drying activities are performed by the grower of the tobacco in sheds on land located directly on the tobacco farm.

Many of the workers performing these activities are used interchangeably with workers in the fields and move freely from one area to another. Following the drying and curing of the tobacco, it is removed from the shed and then shipped to the warehouse or bulking plant. From that point, all activities are of an industrial processing nature. The Association suggests that, rather than repeal the 1974 amendment pertaining to the overtime exemption for employees of shade grown tobacco, it limit that exemption to work performed on the farm as a continuation of the historic harvesting activity. If Congress repeals this exemption now, we fear it will only bring about the same discrimination against shade tobacco harvesting operations which it was intending to correct. We feel that at the minimum fairness requires the Congress should make clear that, by repealing this shade tobacco overtime exemption, it is not seeking to deny the shade tobacco industry the use of the agricultural overtime exemption available to all of agriculture for those specific activities which have historically been part of the harvesting of shade tobacco.

As the nation's largest single private employer of youth ages 14, 15, 16 and 17 in temporary summer jobs, the Shade Tobacco Growers Agricultural Association is particularly concerned with the failure of Congress to provide a special lower wage for this group. When the 1974 amendments removed the previous youth exemption or differential the Association did not oppose this action because it was assured by spokesman for the Congress that the special student exemption would apply to its operations. Language specifically stating that shade tobacco could use this provision (Sec. 14(b)(2) of the Act) was part of the legislative history of the 1974 amendments and was published to make clear the Congressional intent as part of the Senate Labor Committee's Report. However, regulations issued by the U.S. Department of Labor interpreting this section of the law have distorted the clear intent of Congress, so that the provision is virtually unused and unusable by any agricultural employer.

The student exemption is intended to encourage agriculture to continue to provide temporary summer jobs for youth by permitting the payment of 15 percent less than the minimum wage in the case of full-time students. The justification for a youth or student differential lies in the fact that both state and federal laws directly limit the kinds of work which young workers can perform, limit the hours they can work, require special work permits which employers must help them to obtain, and generally prevent them from doing the same work as adult workers. Moreover, the attention span and concentration of these boys and girls is limited and their productivity consequently is less than that of an adult. Also, their welfare requires closer supervision which adds substantially to the cost of their employment -- for example, in shade tobacco there is an average of one supervisor for every 200 adult workers but the youth programs average one supervisor for every 25 boys and girls. About 60 percent of shade workers are 14 and 15 years old, are unskilled and come from rural areas where they have no other opportunities for employment. Other added costs in the Association members' youth camp programs, such as free transportation, subsidized meals and lodging, and an active recreation program, increase the costs of employing youths. These are temporary workers, employed only during the school vacation period, and their earnings often are needed to continue their education in the fall. Generally these workers are still being supported by their parents and their income from this work is supplemental, used primarily for schooling expenses. Many doctors, lawyers, small businessmen and even Members of Congress from the Connecticut River Valley and elsewhere have been able to complete their education only because such work in shade has been available.

The Shade Tobacco Association's youth programs each year have provided employment for boys and girls, ages 14, 15, 16 and 17 totalling many thousands, reaching a peak of 18,000 jobs in 1963 and 1964. The consequence of the currently proposed increases in the minimum wage probably will mean the elimination of these youth employment opportunities and possibly will result eventually in the elimination of this industry from the United States. Income from shade tobacco has been depressed in recent years. This year's crop of shade tobacco was adversely affected by a loss of approximately $2 million caused by an unseasonal heavy snow storm, causing the area to be declared a disaster area. Shade tobacco is the only tobacco which has never been subsidized by federal farm price support programs. Since the industry is credited with contributing some $85 million annually in income to the depressed area along the Connecticut River between Hartford, Conn. and Springfield, Mass., its demise would be a devastating blow to this region. Planted acreage this year is down from a peak of 11,000 acres in 1963 and 1964 to about 3,700 acres.

At a time when Congress finds it necessary to vote hundreds of millions of dollars to establish programs to provide summer jobs for youth, consideration must be given to the effect the higher minimum wage proposed will have upon those industries in which youth is currently employed. Agriculture, which probably provides the largest number of such job opportunities, should be encouraged to continue

doing so instead of being penalized by being made to pay the full wage to younger workers in the face of state and federal laws and regulations limiting the work they can do. The Association does not, of course, advocate the removal of these limitations, which in the main, provide necessary protection for younger workers, but, rather, urges that a way must be found so that employers are not victimized when they hire boys and girls younger than 18 years, who cannot give a full day's adult work for a full day's adult wage. A youth differential is one way of accomplishing this objective, since an allowance of 15 percent would barely offset the higher costs of employing youth. The Association would prefer that such a differential be based on age criteria alone as we do not believe that non-students should be discriminated against in employment opportunities. However, the industry would be able to operate under the present student exemption if Congress would clarify the law to make clear that the Labor Department should not continue to limit its use in such a way that it is not workable. In shade tobacco, for example, approximately 75 percent of its work force has been made up of 14, 15, 16 and 17 year olds from the very beginnings of the industry. To arbitrarily apply the student exemption to only 10 percent, as the Labor Department now requires, would be highly discriminatory and would defeat the concept of equal pay for equal work. Also, to require the shade tobacco industry to pay the full adult wage to 75 percent of its total work force who, by state and federal law, limited ability and special cost factors, cannot produce the equivalent of adult workers would place a heavy and unfair burden upon it. What is needed is a clearer provision that all boys and girls 14, 15, 16 and 17 employed in agriculture are covered by this differential.

Finally, we believe that Congress can easily allay the fear that a youth differential might lead some employers to replace adult workers. This can be prevented by writing into the law a provision that the proportion of younger workers shall never be more than the average proportion or percentage of such workers in the previous five years, or similar period. This would prevent the creation of new youth jobs without a corresponding increase in jobs for older workers and protect the historic employment patterns of the industry.

STATEMENT OF
THE SHADE TOBACCO GROWERS AGRICULTURAL ASSOCIATION, INC.
Windsor, Connecticut 06095

Anthony F. Amenta, Executive Director

JOINT STATEMENT

of the

NATIONAL LIVESTOCK FEEDERS ASSOCIATION

and the

AMERICAN NATIONAL CATTLEMEN'S ASSOCIATION

to the

SUBCOMMITTEE ON LABOR

of the

COMMITTEE ON HUMAN RESOURCES
UNITED STATES SENATE

relative to

S. 1871
- MINIMUM WAGE -

submitted by

Frank Arney
Director of Association Services
National Livestock Feeders Association

August 1, 1977

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STATEMENT

S. 1871
Minimum Wage

The National Livestock Feeders Association and the American National Cattlemen's Association are steadfastly opposed to increasing the minimum wage, providing for an automatic adjustment in such wage rate and to any such proposal which would further feed the fire of inflation or include and involve Agriculture and agricultural workers.

Most Americans, the rich and the poor, the private businessman and the public official will readily agree that the major ills of the Nation today are inflation and unemployment.

- INFLATION -

Increasing the minimum wage will only serve to perpetuate inflation. Inflation robs people of their savings, decreases their equity, causes their investments to dwindle, increases the cost of living, takes away purchasing power, adds to the instability of the economy and creates a cost-price squeeze on certain segments of the economy, particularly agriculture.

Increasing the minimum wage is contrary to the best interest of certain persons in the labor force (teenagers, unemployed, unskilled, retired, etc.) and could have a serious negative effect on some businesses and their employees, thus adversely affecting the economy of smaller towns, the relatively lower profit segments of a community, and the regions of the United States traditionally having lower wage standards under conditions of lower living costs.

Proponents argue that an automatic, annual increase of the minimum wage will insure that the minimum wage is not continually eroded by inflationary pressures and will protect the income of minimum wage recipients from the ravages of inflation. In practice the concept will only insure that inflationary pressures will be further aggravated and continued.

- EMPLOYMENT -

Proponents of the increased minimum wage attempt to support their position by showing that over the years employment has increased in spite of minimum wage increases. Fortunately, the strength and vitality of this Nation's economy was such that it could overcome the negative aspects of an increased minimum wage. Employment increases because there is a need and demand for more goods and services and because there is incentive for the private sector to provide them, resulting in more and better job opportunities for those who want to work.

It should also be noted that while the minimum wage has increased, so has the unemployment rate (particularly in more recent years), so has inflation, and so has the number of persons employed by Government.

Increasing the minimum wage results in increased emphasis on substituting machines for workers, making fewer jobs available; robs the employee of the opportunity of taking advantage of peak work periods and discourages the hiring of full-time, year-round employees who are on the payroll during slack periods as well as times when their employment is fully justified.

The increased minimum wage has been the primary factor in pricing many teenagers out of the summer labor market, resulting in summer youth employment programs. Initiated and sponsored by the Federal Government, paid for by the taxpayer, they are, in reality, nothing more than welfare programs serving largely to degrade personal pride and initiative and to place increasing reliance on "Big Brother" Government.

Rather than serving the needs of the working poor, increasing the minimum wage has been more effective in providing some measure of protection to those already employed by reducing job opportunities. To present the minimum wage proposal to the working poor as a panacea when it is really an anathema is a cruel hoax.

- CONCLUSION AND RECOMMENDATION -

Increasing the minimum wage will contribute to unemployment and inflation. Providing for an automatic increase in the minimum wage rate will guarantee that unemployment and inflation will continue.

Congress must face the grim reality that over the years the cumulative effect of this and other wage and price control legislation has been to move this Nation closer and closer to the brink of economic disaster.

It is the position of the National Livestock Feeders Association and the American National Cattlemen's Association that S. 1871 should not receive favorable action by the Congress.

- NLFA-ANCA -

STATEMENT OF

YOUNG AMERICANS FOR FREEDOM

FOR THE

SENATE HUMAN RESOURCES COMMITTEE

HEARINGS ON THE MINIMUM WAGE INCREASE

Young Americans for Freedom is the nation's largest conservative youth group with over 55,000 members in all 50 states. Most of our members are high-school or college students from middle-class backgrounds. Most of them must look for work in the summer and often during the school year as well. We have considered the evidence on the effects of minimum wage and are strongly opposed to any increase in the minimum wage. Indeed, our study leads us to support repeal of the existing minimum-wage laws.

Minimum-wage laws have proved to be yet another example of the many government programs which end up hurting the very people they try to help. It is the poorest workers who are hurt the most by minimum-wage laws. Those already making wages above the legal minimum find their wages either unaffected or actually pushed up a little. But those currently earning less than the proposed $2.65 floor may find themselves out of a job.

Many people support the idea of a minimum wage out of naive compassion, not realizing its real effects. But we may justly question the motives of union leaders, who may well realize that minimum-wage laws can help their own high-paid workers by increasing the demand for skilled and experienced labor. And as the New York Times pointed out, high minimum wages reduce business resistance to union organizing.

Let us briefly recite some of the results of independent studies on the minimum wage.

A study by the Brookings Institute found that high minimum wages reduce the total number of available jobs. They recommended a lower minimum wage for younger workers, acknowledging that a lower minimum creates more job opportunities.

The New York Times says that between 200,000 and 1,000,000 jobs will be lost as a result of an increased minimum wage now.

Ohio University economists Gene Chapin and Douglas Adie write, "Increases in federal minimum wages cause unemployment among teenagers. The effects tend to persist for considerable periods of time. And the effects seem to be strengthening as coverage is increased and enforcement of the laws becomes more rigourous."

A study by James F. Ragan Jr. of Washington University said "youth employment would have been 320,000 persons higher than it actually was" had the minimum wage not been increased between 1966 and 1971.

Dr. Arthur Burns wrote in 1966 that "the ratio of unemployment rate among teenagers to that of male adults was invariably higher during the six months following an increase of the minimum wage than it was in the preceding half year."

David E. Kaun found that statutory wage floors caused plant closings and the replacement of labor by other means of production.

Yale Brozen of the University of Chicago found in two separate studies that the minimum wage hurts lower-paid employees, particularly teenagers and minorities.

As regards the current bill, the Chamber of Commerce estimates that 3 million jobs will be lost including, of particular concern to us, 391,000 jobs for teenagers. Secretary of Labor Ray Marshall

says the job loss will be "only" 90,000, and he is not concerned; he has a job.

One more subjective outlook might profitably be mentioned here. A poor black social worker in Dade County, Florida, Betty Jacksen, says, "It would be just awful for the kids if they raise the minimum wage again. It's bad enough now, but if the floor goes up again, the kids simply won't ever get hired." Black teenagers she works with echoed her feelings.

With all this evidence against minimum-wage laws, what are the arguments for them? Essentially, it seems to be just an argument that it's terrible to make only $2.30 an hour. That may be true, but is it better to work 40 hours a week at $2.30/hour, or 0 hours at $2.65? If the minimum wage is so good with no bad effects, why not raise it to $10 an hour?

Many people have proposed that there be a lower minimum wage for young people to alleviate the special hardship they face. This proposal has a certain appeal; it would hurt young people less than an across-the-board minimum wage hike. But opponents have argued that it would help young people at the expense of older workers.

This latter point is a good one. It is not, however, an argument against a youth differential; it is an argument for repeal of the minimum wage entirely. Government should not hurt young people by raising the minimum wage for them, but neither should it hurt older workers by forcing the price for their labor up. It should stop hurting all workers by repealing the minimum wage.

The panel purporting to represent American youth which testified on August 4 contained not a single opponent of the minimum wage increase nor an advocate of a youth differential. We hope our statement will demonstrate that many young people see through the charade of the minimum wage, which hurts those whom it seeks to help.

To the members of this committee and the entire Congress, we earnestly implore: Don't destroy our job opportunities by raising the minimum wage again.

NATIONAL PARKING ASSOCIATION

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STATEMENT OF

NATIONAL PARKING ASSOCIATION

ON S. 1871

"FAIR LABOR STANDARDS AMENDMENTS OF 1977"

SUBCOMMITTEE ON LABOR

COMMITTEE ON HUMAN RESOURCES

UNITED STATES SENATE

AUGUST 5, 1977

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Houston, Texas

National Parking Association is the 1,300-member trade organization which represents the commercial off-street parking industry in the United States. NPA members own or operate thousands of parking locations in virtually every state serving millions of American motorists daily.

According to the U.S. Department of Labor, more than 4,530,000 American workers will be affected by proposed increases in the minimum wage during the first year. Many more will be affected as the minimum increases each year following. The great majority of these workers are employed in retail and service industries, thousands of them in commercial parking operations.

The primary concerns of National Parking Association with current proposals are: "indexing" all future minimum wage increases by tying them to a percentage of average hourly earnings in the manufacturing sector; repeal or substantial reductions in the "tip credit" provisions of current law; and the concept of a "youth differential" or subminimum wage for first-time workers and/or youth.

Some form of automatic increases in the minimum wage have been considered since 1949 when the cost-of-living index was seriously considered as a vehicle for automatic escalation. The idea was to protect the purchasing power of workers at the minimum wage level and set a basic income floor. If this

rationale is accepted, then the current proposal tying increases to average manufacturing wages founders since there is no correlation to purchasing power, only the income of workers in another sector of the economy. Purchasing power is not increased.

Moreover, linking the minimum to a high productivity sector, such as manufacturing, could result not only in a renewed round of wage inflation but to higher consumer costs as retail and service industries raise prices to offset increased wages and manufacturing workers raise wage demands to maintain traditional wage differentials. The worker caught adversely in this cycle is, of course, those employees at or near the minimum wage level. Those on fixed incomes and pensions, of course, are hurt even worse.

Competitive advantages and disadvantages, too, come into play as industries in certain regions of the country are more able to pay higher wages than those in other regions. This brings about plant closings, increased self-service operations and the like in precisely those areas where jobs are most needed.

National Parking Association members also believe that elected officials using judgement and compassion should make the policy decisions on a subject as important and with as great an impact as the minimum wage. An unfeeling statistical index cannot possibly reflect changing conditions as can the Congress. Indexing takes this judgement out of the hands of those charged with deciding policy issues.

Perhaps the most tragic consequence of legislation such as this is the potential for a significant increase in unemployment, particularly among minorities, the young and the unskilled. Jobs previously offered by employers become, with a too-high increase, unfeasible economically and workers are laid off while the company completely foregoes new hiring. The rigid nature of the federal minimum wage makes natural economic adjustments impossible and perpetuates unemployment. By artificially raising wage rates for unskilled workers, the chances for on-the-job training are reduced substantially leading to an eventual shortage of trained, skilled labor.

Elimination or reduction of the tip credit to a fixed dollar amount could result in significant economic consequences to smaller companies now taking advantage of its provisions as well as to employees of those companies.

Traditionally, this provision of existing law has made it possible for tipped employees in many cases to earn considerably more than the minimum wage. Elimination or reduction, though, could cause those companies claiming the credit to raise consumer prices, begin a move to self-service operations or reduce their work force. Certainly, many of those companies would have to consider a sharp reduction in fringe benefits.

A "youth differential" or "youth opportunity wage" should be enacted for a variety of reasons, not the least of which is the positive effect it would have on high levels of unemployment among young people.

According to a Congressional Budget Office report entitled "Policy Options For Teenage Unemployment Problem" dated September 21, 1976:

> Minimum wage regulations may have a greater impact on teenagers than on more mature workers. As low paid groups of workers, many teenagers may benefit from the legal minimum wage; but because of the minimum wage, teenagers may find it more difficult to find employment. If employers are forced to pay a higher wage than they otherwise would, they may select older, more experienced workers whom they can get for that wage. This not only increases the chance of relatively high initial productivity, but minimizes potential loss of training investment if these workers quit. More experienced workers will not require as much initial investment as inexperienced teenagers. Another effect that the minimum wage may have on teenagers is to limit their opportunities.

During June of this year, youth unemployment reached a peak of 16.8 percent among youths 16 to 19. For high school dropouts, particularly among nonwhites, the rate was an incredible 61.4 percent. Clearly, these young people will not be helped by a minimum wage at the level this bill proposes. They might be put to productive use, though, if employers are given an incentive for hiring and training them at a somewhat lower rate than the statutory minimum.

Each time Congress has raised the minimum wage during the last 20 years, youth unemployment rose. Always, the hardest hit were members of minority groups.

To quote the minority views of the House Committee on Education and Labor report accompanying H.R. 3744:

> The most severe problem faced by young people not in school is not the ability to find a job but rather the inability to find a meaningful career opportunity. Minimum wage jobs for youths generally tend to be dead-end with little opportunity for advancement, essentially because the minimum wage is generally too costly to employers who do not get a comparable return for the dollars which they invest in youth labor. With a youth opportunity differential, employers would be willing to invest time and money to train unskilled youth.

National Parking Association share this view and believe a youth opportunity wage should be a high priority in any minimum wage legislation considered by this Congress.

In the parking industry, the trend over the past decade has been toward self-service operations, a direct result of skyrocketing labor costs. During 1975 and 1976, for example, 514 new garages were built or begun in the United States. Of these, not one will be attendant-park. Existing lots and garages, too, are moving in the same direction with a noticeable trend toward "lock boxes", eliminating even the need for a cashier on location. This is directly attributable to the expense of labor in urban areas.

In summary, National Parking Association urges the committee to reject the concept of indexing, retain the tip credit at current levels, and adopt a youth opportunity wage.

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INTERNATIONAL ASSOCIATION OF CONFERENCE CENTER ADMINISTRATORS

A POSITION PAPER ON WAGE AND HOUR LEGISLATION

TO: THE SENATE HUMAN RESOURCES COMMITTEE - Harrison Williams, Jr., Chairman
THE HOUSE COMMITTEE ON EDUCATION AND LABOR - Carl D. Perkins, Chairman

FROM: Frank M. Washburn
President, IACCA
YMCA Blue Ridge Assembly
Black Mountain, N. C.

Mrs. Melba Banks, Chairman
Legislation Committee
Christmont Assembly
Black Mountain, N. C.

Kenneth McAnear
Legislation Committee
Baptist Conference Center
Ridgecrest, N. C.

INTRODUCTION: Church and YMCA Conference Centers have been in existence for nearly 70 years. They have been built in areas of great natural beauty throughout the United States. They are used primarily as meeting centers for religious, educational and leadership growth experiences for youth and adults. They provide residence accommodations, meal service, meeting and recreational facilities. Today there are about 1,000 centers.

THE INTERNATIONAL ASSOCIATION OF CONFERENCE CENTER ADMINISTRATORS is a voluntary association of individuals associated with Conference Centers. Its primary purpose is to stimulate high standards of professional leadership, exchange of experiences and successful management practices. It has a membership of 71 Centers.

STAFFING CONCEPTS OF CONFERENCE CENTERS Conference Centers employ a large number of students, teachers and semi-retired persons, who are involved in various programs and educational activities designed to enhance their own personal growth, in addition to meeting the basic staffing needs of the Conference Center.

ESTIMATED NUMBER OF EMPLOYEES These Centers employ about 50,000 seasonal staff members each summer.

STATEMENT OF PROBLEM In 1972 and 1976, the American Baptist Assembly, Green Lake Conference Center in Wisconsin and YMCA Blue Ridge Assembly in Black Mountain, N. C. were audited by the U. S. Dept. of Labor. It was determined they were religious-educational institutions and must comply with minimum wage and hour regulations. The only possible exemption in the law is for an amusement and recreation establishment generating two-thirds of its receipts in any six months of the year and open to the public.

WE DO NOT SEEK AN EXEMPTION FROM MINIMUM WAGE AND HOUR REGULATIONS FOR OUR PERMANENT STAFF, WHO ARE HEADS OF HOUSEHOLDS.

WHAT RELIEF DO WE SEEK? Because Conference Centers recruit students, teachers, and the semi-retired throughout the United States on a seasonal basis, provide them with meals, rooms, the opportunity to participate in a wide variety of educational, recreational and personal growth activities, with a fluctuating work week, we seek an exemption from the law for this classification of employee.

IT WILL REDUCE UNEMPLOYMENT We feel that this will reduce unemployment since we cut our staff in excess of 25% when it was determined we were covered by the requirements of minimum wage and hour law. If this trend continues, more than 12,000 young people teachers, etc. will be in direct competition for jobs in the commercial labor market.

SUMMARY Therefore, we respectfully petition the Congress of the United States to give due recognition to the unique nature of Conference Center employment practices and allow certain exemptions to the current minimum wage and hour law.

STATEMENT OF DONALD A. LAZAR
CHAIRMAN OF THE BOARD, NATIONAL MASS RETAILING INSTITUTE
AND
PRESIDENT, COMMUNITY CENTERS, INC., CHICAGO, ILL.
BEFORE THE
SENATE LABOR SUBCOMMITTEE
OF THE
SENATE HUMAN RESOURCES COMMITTEE

August 10, 1977

My name is Donald Lazar. I am Chairman of the Board of the National Mass Retailing Institute (NMRI). I represent the more than 130 discount department store members of NMRI with over 8000 retail outlets, who will sell approximately $40 billion worth of merchandise this year. I am also President of Community Centers, Inc., a discount department store chain in Chicago.

I am here to oppose, in part, certain proposals of H.R. 3744 and S. 1871. In particular, the National Mass Retailing Institute is strongly opposed to indexing and to the elimination of the student differential and hopes that these provisions as presently read will be removed from the bill.

We recognize the need, from time to time, to make adjustments in the minimum wage in order to compensate for the inflation in the economy. It should be recognized, however, that when one adjusts the minimum wage it is not just the minimum wage that is being affected but the whole pay structure of our employees. This we have done and will certainly do again but it will have a severe effect on our cost of doing business and will inevitably result in the increase in prices of general merchandise.

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Over a period of years, the general inflation which has run rampant in the economy, particularly in the areas of food, housing and transportation, has been kept to a minimum in the sales of general merchandise. This has been brought about chiefly by the discount department stores which have reduced markups and overhead, sold goods in volume and have benefited the American consumer immensely. It is no wonder that this young industry is now the second largest retailing group in the nation.

Yet the installation of the indexing principle in the minimum wage laws will have a constant inflationary impact and will reek havoc with the effort to maintain low prices in this area. In the past, minimum wages have increased on the average, every three years, and certainly not oftener than every two years. The indexing proposal would result in an annual increase in the minimum wage, an annual restructuring of wages and salaries, with a consequent annual effect on the cost of doing business and the prices of merchandise. Indexation, which at one time was thought to be a protector of the wage earner's real income when applied in collective bargaining contracts, and more recently in Social Security and Federal Retirement benefits, has resulted in throwing kerosene on the fire of inflation.

Moreover, the indexing of the minimum wage to the average manufacturing wage will feed on itself. As the minimum wage increases so will the average manufacturing wage, which

in turn will increase the minimum wage, and so on ad infinitum. Truly everyone will be hurt and no one will benefit.

Congress should not delegate away its oversight and control over the minimum wage by providing in this bill for a built-in annual increase. This is particularly true in this period of high unemployment. The incentive to hire additional employees is removed and the pressure to reduce overhead by reduction of the labor force increases. The very purpose of an increase in the minimum wage to preserve the purchasing power of minimum wage workers will result in just the opposite - in the increase of unemployment, welfare, inflation and recession.

A matter which greatly concerns us in the discount department store retail industry is the elimination of the youth differential at a time when recent occurrences during New York City's blackout starkly point up the necessity of doing something about chronic youth unemployment.

In the Congressional Record of July 25, 1977, Congressman John B. Anderson (R-Ill) cited the results of several studies showing that increases in the minimum wage have in the past caused reductions in the employment rates of teen-agers and particularly minority teen-agers. With the unemployment rate of this latter group running at 35 to 40%, causing disastrous social consequences,

Congress can ill-afford to risk any action which would exacerbate this problem. In fact, Congress should be doing whatever it can to increase employment of teen-agers.

The retail industry is one which is in a position to hire teen-agers, but like all industries, it cannot afford many unskilled, inexperienced workers. Congressmen Erlenborn (R-Ill) and Cornell (D-Wis) both proposed youth differential wages to the House Committee on Education and Labor. The wisdom of such proposals is borne out by the fact that most States have seen fit to enact and retain legislation establishing a youth wage at 75 to 85% of the adult wage. We urge Congress to do likewise, and thus help the retail industry to provide more employment for teen-agers. Congressman Blouin (D-Iowa) has also suggested simplification of the paperwork now required to qualify for student wage under present law. This, too, should be done promptly.

The argument made that by providing a youth differential, one discriminates against adults in favor of youth is absurd. Youth are naturally inexperienced and unskilled. Therefore, they should start at a lower rate and move up as soon as they become experienced. However, there is no incentive, indeed there is a disincentive to hire youth if the minimum wage for youth is no different than for the more experienced adult

We are aware that the opinions of experts on the minimum wage vary widely. Congress is in need of sound, unbiased advice on the subject. Therefore, rather than establishing the dangerous system of indexing at this time, we encourage the establishment of an independent, blue-ribbon study commission, to be appointed by the President, to study the minimum wage.

It is undeniable that the present minimum wage does not by itself provide a sufficient income for a worker to support a family of four above the poverty level. But it is highly questionable whether our current minimum wage or any minimum wage is an appropriate solution for the problem of poverty. The commission should investigate both the purpose and effect of a minimum wage, and determine whether indexing or any automatic system is an appropriate method of establishing increases, if indeed a minimum wage is appropriate at all. It is our opinion that Congress should not shirk its responsibility to evaluate the state of the economy by establishing a mindless, inflationary system of annual increases likely to produce more havoc than real benefit to workers.

In short, NMRI urges the rejection of indexing, the establishment of a youth differential and the creation of a commission to study the minimum wage. H.R. 3744 and S.1871 should be amended by this committee to meet these needs.

STATEMENT OF

NATIONAL ASSOCIATION OF CHAIN DRUG STORES

ON THE

FAIR LABOR STANDARDS AMENDMENTS OF 1977

BEFORE THE

SUBCOMMITTEE ON LABOR

COMMITTEE ON HUMAN RESOURCES

U.S. SENATE

August 11, 1977

The National Association of Chain Drug Stores, Inc. (NACDS), submits the following statement for the record with regard to legislation (S. 1871) the Fair Labor Standards Act of 1977.

BACKGROUND

As a trade association, NACDS represents the management of more than 200 corporations which operate approximately 10,000 drug stores and 1,500 leased pharmacy departments throughout the United States. Quantitatively, our chain members range in size from four store operations to corporations with over 800 retail drug outlets. Thus, this Association reflects the views and interest of both small business and large corporate concerns. In terms of total drug store sales which have been estimated at $16.7 billion for 1976, our members accounted for 65.4 percent of this amount. The Chain Drug Industry is indeed proud of its track record over the past several decades as we have grown to become a major voice in the retailing community as well as a key provider within the nation's health care delivery system. Low prices, convenient locations, a pleasant shopping environment, fast and courteous service, coupled with high productivity and an emphasis on efficiency have attributed to this industry's dramatic expansion.

IMPACT

As an industry which employs in excess of one million persons in retail drug stores, restaurants, warehousing operations and at the corporate headquarters level, any proposal to increase the minimum wage rate would have an immediate affect upon our chain drug members. In brief, S. 1871 would increase the minimum wage rate to $2.65 an hour effective January 1, 1978, on a 51% indexing

concept that is tied to the average hourly earnings in manufacturing. Under this proposal, the minimum wage would be hiked to $2.89 an hour effective January 1, 1979, based on an index of 52%, and the following year, January 1, 1980, the minimum wage would be $3.15 an hour according to 53% indexing formula. After 1980, on an annual basis, future minimum wage increases would be determined by the 53% formula from the manufacturing sector. Additionally, another key section in the measure would gradually phase-out the tip credit by 1983. Thus, all of these features contained within S. 1871 would impact upon Chain Drug Stores, including the tip credit phase-out since many of our members operate soda fountains and restaurants.

Based on what we see as the consequences of this proposal as it pertains to Chain Drug operations, personnel, wages, cost of goods and services, especially the distribution of prescription drugs, budgetary considerations along with its overall implications on the nation's economy and unemployment, NACDS must register our opposition. Specifically, we believe that this legislation, which would increase the minimum wage rate by at least 36% in a short three year period is excessive and would trigger a new and more intense round of inflation at a time when the health of the economy is questionable at best.

While this Association recognizes that the minimum wage has historically been a protective shield to help low wage workers, we feel that this bill would adversely affect those individuals that would hope to benefit from an increase. For certain, within the Chain Drug Industry, a minimum wage increase hike of this magnitude would cause an across-the-board reduction of an estimated 100,000 employees, especially part-time workers. Many Chain Drug members have stated that in order to adjust to the impact of this legislation if enacted, they would curtail the number of hours that their employees could work in a given week while certain corporations have indicated they will postpone hiring new employees to

counteract the results of a higher salary costs.

Concerning the effects of this proposal on small business, under the first minimum wage hike of $2.65 an hour which would take effect January 1, 1978, one of our smaller chain members with 13 retail pharmacies has computed that his wage costs would be increased by $175,000 over what he is currently paying his employees. According to this member, such a dramatic increase could not be negated by increased sales, so he will be forced to reduce his work force substantially if this legislation is enacted.

On a nationwide basis, the effects of this legislation would be devastating. Unemployment would reach record levels, particularly among youths and minorities who are just now entering the job market with few skills and only a basic educational background. Since the last amendments to the Fair Labor Standards Act, which were approved in 1974, have just recently gone into effect and President Carter in conjunction with the Congress is working on major jobs programs, NACDS strongly recommends that any further consideration of this bill be postponed. For one, proper evaluation of the last minimum wage increases should be made as its impact on the economy and employment. Secondly, leading economists throughout the country are predicting that a $3.15 an hour minimum wage would eliminate some two million jobs throughout the country which would in effect completely offset any gains made from a major jobs program.

INDEXING

Of particular concern to this Association is the indexing provision which would provide for future minimum wage increases. NACDS strongly believes that future minimum wage hikes must remain within the public decision making process so that all concerned parties -- Congress, Government, Labor, Business and Industry -- will have the opportunity to give this important matter careful consideration.

Within our industry if indexing the minimum wage were enacted, Chain Drug Stores would not be able to reward those employees who have been highly productive. Instead, all workers receiving the minimum wage would be given an increase whether or not they have earned it. We seriously question this principle since it eliminates incentives to be a good worker and NACDS further wishes to point out that indexing will create a ripple effect relative to other job salaries as the minimum wage is adjusted upward.

Coinciding with this problem will be the impact on the price of consumer goods at the retail level. If productivity cannot counterbalance these annual wage hikes, the Chain Drug Industry will have no other choice but to increase the price of goods to the consuming public. More important, is the argument, and we believe it is a valid one, that the entire concept of indexing has become the major contributor to runaway inflation. With an indexing approach there are no checks and controls. Wages, benefits and pensions are simply adjusted upward to keep pace with the cost of living and this results in further increases in every sector of the economy.

From a business standpoint, indexing would create significant administrative problems. Retailers must prepare operating budgets for the upcoming year and all components of a budget, such as sales, cost of goods, salaries, rent, utilities, insurance, taxes, supplies, advertising and so forth, must be accurately computed. However, with indexing, employers would find it extremely difficult to anticipate or project their operating budgets for the year ahead. Thus, if an employer's estimate is not accurate for next year's minimum wage increase, he may be forced to trim the number of employees in his work force.

In this regard, NACDS firmly believes that the indexing section of this legislation should be deleted. Since there is so much controversy surrounding the concept of indexing, the Chain Drug Industry is of the opinion that a special Commission should be appointed to study the effects of minimum wage increases on unemployment

while carefully scrutinizing the pros and cons of an indexing scheme.

TIP CREDIT

The repeal of the tip credit as we previously mentioned would also impact heavily upon Chain Drug Stores. NACDS estimates that there are approximately 1600 retail outlets within our industry that are operating some sort of food service such as soda fountains, ice cream parlors and restaurants in which employees are receiving a substantial portion of their income from tips. In most instances, tipping helps to bring wages for our restaurant employees above the minimum wage level. Thus, a repeal of the tip credit would force many chain drug stores, particularly the smaller chains, to close their food operations while other members would have to increase menu prices in order to neutralize the increased labor costs. Based on these ramifications, we are opposed to repealing the tip credit.

ALTERNATIVES

NACDS believes that other methods of resolving the plight of lower wage earners would be a better approach. For example, a tax credit adjustment for those individuals who find themselves in the lower income brackets would be a realistic solution to the problem. Special training and education programs conducted by Government and Industry that would teach the unskilled and make them more employable would certainly be helpful. In fact, NACDS has made a commitment in this area during 1977 by becoming a business associate of 70001 LTD., which is an organization that is working toward integrating high school drop-outs into the work force and society. In essence, we believe that programs such as this one, will benefit disadvantaged persons by providing them with greater educational-job opportunities rather than limiting them to a life time of lower paying jobs or unemployment.

In summary, NACDS is opposed to S. 1871 as the bill is currently written. The Chain Drug Industry is most concerned with the measure's indexing provision and we urge that this section be struck from the bill. If an increase of the minimum wage is enacted by this Congress, it should be a modest one which would not damage the nation's efforts to revitalize our economy. The Chain Drug Industry is most appreciative of having the opportunity to present our views and we hope that the Subcommittee will give them full consideration.

Business
Industry
Association

50 Park Place, Newark, New Jersey 07102 201-623-8359

STATEMENT

of the

NEW JERSEY BUSINESS AND INDUSTRY ASSOCIATION

to the

NEW JERSEY CONGRESSIONAL DELEGATION

and

THE LABOR SUBCOMMITTEE

of the

SENATE HUMAN RESOURCES COMMITTEE

on

H.R. 5055
H.R. 6075
S-995

"An Act Concerning Pregnancy Disability"

September, 1977.

formerly New Jersey Manufacturers Association
Home Office: Sullivan Way, Trenton, New Jersey 08607 609-771-0600

The New Jersey Business and Industry Association, on behalf of its more than 13,000 members located throughout the state, takes this opportunity to present its views concerning H.R. 5055 (H.R. 6075 and S-995) amending Title VII of the Civil Rights Act of 1964 and clarifying the law pertaining to pregnancy.

H.R. 5055 would amend the federal law to classify pregnancy as a disability. New Jersey employers could hardly take a position in direct opposition to the objectives of the proposed legislation. The New Jersey Temporary Disability Insurance Law has for many years recognized pregnancy as a disability but has limited the benefits payable under the provisions of this law.

New Jersey employers could support a similar federal benefit law provided it has a six-week cap on the number of weeks of benefits that an employer must provide for normal pregnancies.

As a general rule, employer medical programs require that maternity benefits are payable provided conception took place before the effective date of the insurance program. We feel it is unreasonable to require an employer to incur a medical liability which was in effect before the effective date of a new employees insurance coverage. We strongly urge that this concept be extended to pre-existing pregnancies. We urge that language be included to specify that where a disability or medical plan excludes pre-existing conditions, (conditions in effect prior to the effective date of the plan) pre-existing pregnancies can, if an employer desires, also be excluded.

While the effective date of this legislation would not cause a hardship

for New Jersey employers, we believe that there should be a realistic lead-in period. From a practical point of view we recognize the necessity for employers to not only plan financially for the added coverage, but to also redesign their plan and re-negotiate with insurance carriers. These changes cannot be accomplished without careful study. We strongly urge that a one-year lead-in time be provided before the effective date of this legislation.

Our analysis of Section 2 of S-995 indicates that existing benefit provisions will be required to be maintained with respect to pregnancies. This, we feel, is an unreasonable and extremely costly provision. If an employer's insurance plan provides for up to a maximum of 120 or 365 days hospitalization it would be unrealistic to provide the same coverage for a normal pregnancy. It is unrealistic and costly to require pregnancy benefits to be brought up to the higher level. As another example, suppose a plan eliminates a deductible provision for doctor visits related to pregnancy and provides for first dollar coverage, while doctor visits for other illnesses are subject to a deductible without a cap. Our interpretation of this section would require a complete redesign of the insurance plan to bring the level of all other benefits in line with the more liberal pregnancy schedule. This would require significant increases in premiums and reduce the effectiveness of an employer's efforts to contain escalating health care costs. We, therefore urge that, the provision in Section 2, requiring that existing benefit levels be maintained, be eliminated.

Furthermore, we believe that it is essential that a provision be inserted

pre-empting individual States from passing legislation on this subject. Otherwise, employers with facilities in more than one State could find themselves administering a variety of plans, thereby prompting "whip-sawing" between plants and States and further increasing costs.

The New Jersey Business and Industry Association strongly urges that you seriously consider our comments prior to voting on this legislation.

* * * * * * *

STATEMENT OF JAMES T. HOUSEWRIGHT, PRESIDENT, AND DANIEL E. CONWAY, SECRETARY-TREASURER, FOOD AND BEVERAGE TRADES DEPARTMENT, AFL-CIO, TO THE SENATE COMMITTEE ON HUMAN RESOURCES ON S. 1871, A BILL TO AMEND THE FAIR LABOR STANDARDS ACT OF 1938

JAMES T. HOUSEWRIGHT
President
DANIEL E. CONWAY
Secretary-Treasurer
ROBERT F. HARBRANT
Executive Director
EDWARD J. PANARELLO
Director of Legislation

August 3, 1977

A fair minimum wage combined with effective enforcement is the best way to improve conditions of the working poor. Our Government should act to achieve an above-poverty wage floor for working people.

We respectfully urge the Congress to enact S. 1871 which will provide for a minimum wage of $2.65 per hour as of January 1, 1978 and will index future increases of 52% of the average earnings of production workers in manufacturing as of January 1, 1979 and 53% of average earnings as of January 1, 1980.

Our Department represents over 2 million workers. The Hotel and Restaurant Employees' and Bartenders' International Union is an affiliate of this Department. The tip credit section contained in S. 1871 is equitable and deserving to the workers in this particular work division and we urge its enactment with no modifications.

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STATEMENT OF THE

SMALL BUSINESS LEGISLATIVE COUNCIL

FOR THE

LABOR SUBCOMMITTEE

OF THE

SENATE COMMITTEE ON HUMAN RESOURCES

HOLDING HEARINGS ON S. 1871

FAIR LABOR STANDARDS ACT

Mr. Chairman:

This statement is presented on behalf of the Small Business Legislative Council (SBLC) -- an organization of national trade and professional associations whose members are predominantly smaller businesses. The basic purpose of SBLC is to maximize the influence and strength of small business on issues of importance to the entire small business community...issues or areas in which the Council member associations are in substantial agreement.

The Small Business Legislative Council, currently representing over 700,000 small business firms, sincerely appreciates the opportunity to present the views of small business on a topic as important as amendments to the Fair Labor Standards Act.

*Of the National Small Business Association

Organizations listed at the end of this statement support in principle the Small Business Legislative Council position that:

> "In view of the uncertainty of minimum wage benefits to low-wage workers, and the undesirable economic effects of indexing the minimum wage, SBLC opposes automatic increases in the minimum wage based on the average hourly manufacturing wage. The minimum wage is an economic policy tool that deserves close attention by the Congress and the President to determine its effectiveness. By indexing the minimum wage in regard to the average hourly manufacturing wage, this determination is eliminated. Basing minimum wages throughout American business on the average hourly wage in manufacturing will have a dispropertionate impact on the small business sector of the economy.
>
> "SBLC recommends that a commission be established to make a thorough study of the impact of indexing the minimum wage and report to Congress before any indexing proposal is enacted."

Impact on Small Business

Indexing the minimum wage would have a substantial impact on small business, particularly if the "index" used is straight time average hourly wages in manufacturing.

The largest group of employees affected by minimum wage legislation is in the non-manufacturing labor-intensive area that includes many smaller retail and service concerns, as well as agriculture workers.

Because the manufacturing sector is highly unionized, and other non-unionized plants are affected by union wage levels, wages in manufacturing tend to be higher overall than in other industries. While the average hourly manufacturing wage may indeed represent a generally national wage trend, the fact remains that a generally national trend in manufacturing may be several years or several steps ahead of wage trends in the non-manufacturing segment, where the bulk of workers (and the bulk of smaller employers) is concentrated. By tying the minimum wage to the average manufacturing wage, smaller employers are being bound by standards that may not be appropriate or practical for their area of industry. A few major unions in manufacturing may develop a "pattern agreement" with a handful of manufacturers. Realistically these pattern agreements become mandatory upon hundreds of other employers in the same industry.

In addition, since many union contracts now have escalator provisions tied to the Consumer Price Index (CPI), the multiplier or "ripple" effect of the CPI is not avoided by using the average manufacturing wage. As automatic increases under cost of living provisions of union contracts take effect, prices are increased and they would trigger a corresponding increase in the minimum wage.

The "feed-back" effect is continued when skilled workers earning substantially more than the minimum wage negotiate for increases to maintain the wage differential between themselves and entry-level minimum wage workers.

The spiral effect of indexing the minimum wage to average manufacturing wages is clear. Increases in manufacturing wages trigger an increase in the minimum wage, which in turn triggers further increase up the line, increasing the average manufacturing wage still further. This spiral effect can take place with any index.

Another feature of the Williams-Javits bill would also have a disproportionate effect on small business. Ending the coverage distinction between agricultrual and non-agricultural workers would have a substantial impact on the 3 million small farms in the country, which would affect food prices at the market and would affect the CPI. The cost of food constitutes over 21 percent of the CPI.

In addition to the factors mentioned above that would cause additional pressure on inflation (negotiated wage increase, CPI increase), the methods to be used by the Bureau of Labor Statistics in accumulating data should also be reviewed.

The Bureau of Labor Statistics has undertaken a new project of accumulating Employment Cost Index Data, by establishment. All in-grade increases, or increases within a job classification, will be included in determining wage levels for a particular job.

Those persons entering a job as new hires, and receiving predetermined wage increases based on a collective bargaining contract, will have those in-grade increases measured as an increment in wages as part of the entire group within the job classification.

Under S. 1871 future increases in the wage index would be tied to a percentage of average wages paid in manufacturing. The in-grade increases thus distort the actual wage being paid in the industry.

Using the in-grade increases to determine average wages artificially increases overall wage levels thus increasing average wages in manufacturing and would result in increasing minimums which affect the costs suppliers charge for their products. Unless the straight-time hourly series is used to determine average minimums, the average hourly series, which includes over-time, would also cause distortions in wage levels in manufacturing.

Because there is a difference of opinion among economists on the effect of minimum wages on the earning and employment potential of low-wage workers, the wisdom of removing minimum wage determinations from the legislative area is not clear.

As Dr. Finis Welch, Professor of Economics, UCLA, and an associate of the Rand Corporation, said in his testimony before the House Subcommittee on Labor Standards (on behalf of the Minimum Wage Interindustry Group of Associations), "One would suppose that the authors and supporters of the initial Fair Labor Standards Act viewed the minimum wage as something that would aid workers in securing a minimal standard of living. That is, the minimum wage served as something of a broadly based welfare program. Surely, the world with respect to welfare of 1938 is not the world of today and if trends persist, tomorrow's world will not be that of today. As such, I would argue that the minimum should not be indexed. As a policy tool, it deserves a place on the agenda so that it can be evaluated and reevaluated in context."

The major concern of the Small Business Legislative Council is the creation of an accelerated inflationary spiral at a time when there are indications that our economy may be coming under control. Such wage increases not related to

increases in indexing can only bring further hardship to those individuals this bill is designed to help. We urge that further study be made of the probable impact of wage indexing before we undertake such a drastic program.

Organizations Supporting
Small Business Legislative Council
Position on Minimum Wage

American Association of Nurserymen
Washington, D.C.

Automotive Warehouse Distributors
Assn., Kansas City, Missouri

Christian Booksellers Association
Colorado Springs, Colorado

Independent Bakers Association
Washington, D.C.

Machinery Dealers National Association
Silver Spring, Maryland

Menswear Retailers of America
Washington, D.C.

National Association of Brick
Distributors, McLean, Virginia

National Association of Independent
Lumbermen, Washington, D.C.

National Beer Wholesalers of America
Chicago, Illinois

National Concrete Masonry Association
McLean, Virginia

National Family Business Council
Westville, New Jersey

National Independent Meat Packers
Association, Washington, D.C.

National Office Machine Dealers
Association, Hackensack, New Jersey

Association of Steel Distributors
Cleveland, Ohio

Building Service Contractors Association
McLean, Virginia

Food Merchandisers of America
Washington, D.C.

Independent Sewing Machine Dealers of America
Hilliard, Ohio

Manufacturers Agents National Association
Irvine, California

Narrow Fabrics Institute
New Rochelle, New York

National Association of Home Manufacturers
Washington, D.C.

National Association of Plumbing/Heating/
Cooling Contractors, Washington, D.C.

National Candy Wholesalers Association
Washington, D.C.

National Electrical Contractors Association
Bethesda, Maryland

National Independent Dairies Association
Washington, D.C.

National Insulation Contractors Association
Washington, D.C.

National Office Products Association
Alexandria, Virginia

National Patent Council, Inc.
Arlington, Virginia

National Small Business Association
Washington, D.C.

National Precast Concrete Association
Indianapolis, Indiana

Printing Industries of America, Inc.
Arlington, Virginia

STATEMENT

on Behalf of

HOLIDAY INNS, INC.

Regarding

S. 1871
AMENDMENTS TO THE FAIR LABOR STANDARDS ACT

Presented to

UNITED STATES SENATE COMMITTEE ON HUMAN RESOURCES

SUBCOMMITTEE ON LABOR

The Honorable Harrison Williams, Chairman

Prepared by:

Holiday Inns, Inc.
Food & Lodging Division
Jack Barksdale, President

August 15, 1977

Mr. Chairman and members of the Subcommittee, I am Jack Barksdale, President of the Food and Lodging Division of Holiday Inns, Inc. We appreciate this opportunity to present Holiday Inns' views on S. 1871, the current proposed amendments to the Fair Labor Standards Act of 1938. We oppose enactment of S. 1871.

The adverse impact upon the food and lodging industry and our own organization, the Holiday Inn System, of the proposed legislation is, we believe, almost beyond calculation at this time. But certainly it is no exaggeration to say that it would set off shocks and tremors that will affect the entire structure of innkeeping as it has existed.

The Holiday Inn System is made up of more than 1,700 individual properties in every state and in 51 countries and territories around the world. It is the world's largest food and lodging system, annually serving more than 100 million persons in its 277,000 guest rooms and 2,500 food-service establishments. We employ 155,000 people.

Within the framework of S. 1871 as proposed and the estimated increases in minimum wage over the next several years as contained in testimony of Labor Secretary Marshall, we have endeavored to calculate the dollar effect on the Holiday Inn system given our present work force. We believe the results are dramatic. The added cost to the Holiday Inn System in 1978 should S. 1871 become law in its present form is NINE MILLION DOLLARS!

In 1979, the cost would increase to a full $30 million.

By 1980, the figure that year will have spiraled to $53 million.

In 1983, we estimate our additional cost as a result of S. 1871 would be a staggering $123 million.

These caluclations are based on the following conditions as we understand the bill:

YEAR	MINIMUM WAGE	TIP CREDIT
1978	$2.65	$1.19
1979	2.89	1.15
1980	3.15	0.95
1983*	3.90	-0-

*Based on an estimated $.25 increase per year in the minimum wage rate.

This is the 25th anniversary year for Holiday Inns, and our company has the distinction of having pioneered the industry that is now one of the largest retail businesses in our economy. The travel industry as we know it in America did not exist 25 years ago. It started to grow at the same time Holiday Inns grew. Our company's growth was fueled by the dynamics of jet air travel, the interstate highway system and a commitment to the principles of free enterprise.

Today more than 4 million Americans earn their living from travel and tourism. They represent 5.4 percent of the entire labor force of this country. By way of comparison, 3.8 percent of the work force is engaged in agricultural work. The point is that our industry is a substantial contributor to this nation's economy in terms of job opportunities, as well as in other values in the Amrican life style.

Proposed Repeal of Tip Credit

One section of S. 1871 is of such disastrous impact on our industry as to merit first mention.

What makes our industry unique is that, actually, all we have to sell is service. And that is precisely why tipping ... that incentive to provide the highest quality of service ... has always been a traditional and integral part of hospitality business.

Employees who receive tips are among the highest-paid employees in the service industry. The last report issued by the Department of Labor Statistics, over three years ago, showed that the average rate for tipped employees exceeded double the minimum wage at that time. Any change in their compensation would cause serious inequity with those employees who are not in the tipped categories of service. Employees who receive the minimum wage, plus tips, would earn several times more than employees who do not receive tips. On the other hand, if the food and lodging industry is compelled to add a 10-15 percent service charge and to post "No tipping" signs in our lobbies and restaurants, these same employees would receive far less than their present remuneration.

To our knowledge, there has never been any adequate case presented against tip credit. As an employer, we have never heard the charge made within our system that tip credit was being abused by anyone or is used to keep employee wages down. Our employees are happy with it.

We urge you to leave the tip credit provisions as they are.

Indexing

S. 1871 proposes to tie future increases in the minimum wage to an automatic adjustment relating to the average manufacturing wage. We see

this step as a dangerous precedent, and not necessarily a move that would accomplish the objectives its proponents seek.

We oppose enactment of automatic adjustment tied to the manufacturers wage on two grounds:

1. The majority of all businesses in this country is not manufacturing related ... and never will be. It is either agriculturally or service oriented. The service sector of our economy is currently the largest contributor to GNP ... 66% ... and still growing. In addition to hotel-motel services and food service, this sector includes insurance, accounting, health services and many others who don't like the idea of having their wage rates tied to an area of the economy with which they have nothing in common.
2. We believe that a periodic look at our prevailing minimum wage is basically healthy. We have never opposed reasonable increases that reflect inflationary trends and overall rises in the cost-of-living. We believe that most legislators and policy makers feel the same ... and would prefer the opportunity to periodically review minimum wage provisions. Automatic escalation and indexing would work against that approach.

Proposed Hourly Rate Changes

Let's look at the proposed wage in percentage of increase. By January 1, 1980, we would incur a 37 percent increase in our minimum wage rate, as compared to the current $2.30/hour.

As staggering as it may sound, this figure is conservative. We have not included increased costs of FICA or unemployment insurance ... all

very real dollars. Also ... our cost estimates do not include a "ripple" effect. The "ripple" is another real cost, as we are confident the proponents of S. 1871 know.

We have had some experience in calculating ripples. It happens whenever there is a cost-of-living increase, a minimum wage increase, or any other across-the-board fringe benefit package addition.

Our best estimate of the ripple impact of S. 1871 is an additional 40 percent increase to our estimated cost figures. There is no way our system or our customers can absorb such an arbitrary cost increase.

Special Consideration

There are several additional items worthy of the committee's consideration concerning how we are trying to come to grips with the dilemma presented us in S. 1871.

We mentioned earlier the size and scope of the tourism industry, an industry whose significance does not seem widely known or understood. The industry is also, proudly, labor intensive ... and a prime employer of many of the target groups to which the Administration and Congress seem to be directing attention in economic stimulus and job generation plans. S. 1871 is so counterproductive as to work in the opposite direction.

Holiday Inns' own employment figures are revealing. Fully 73% of our total work force is either female or minority ... many are both. Over 30% of the total are non-white.

For many, entry into a tourism industry job is one of the only routes to higher achievement for the uneducated or semi-skilled.

A case in point is that of Mrs. Cindy Nelson. Ten years ago she was hired as a waitress by the Holiday Inn of Janesville, Wisconsin, her

home town. Then she was promoted to cashier/hostess, later to food and beverage director and then assistant innkeeper. Today she is in full charge as Janesville's Innkeeper.

Our industry is a heavy employer of young people, many of whom are college and high school students. Some, for one reason or another, are not finishing their education while in their teens. All are relatively unskilled, and require training. The prospect is that they will be priced out of the marketplace -- and quickly -- with an inordinately high minimum wage.

We are aware that teenagers represent the largest group of unemployed workers today, at 18 percent. That rate is nearly doubled among minorities, at over 37 percent. Minimum wage increases are having a devastating effect on teenagers.

A widely quoted study by Washington University of St. Louis tells us: "Minimum wage legislation reduces youth employment; males, especially non-white, are hardest hit."

What is our alternative when we are confronted with a high minimum wage coupled with low productivity of young, untrained personnel? Reduced restaurant hours, fewer shuttlebus trips to the airports and other reductions in service appear to be part of the answer. That, obviously, means fewer jobs. And the youth in need of them -- not only in terms of money but in terms of an introduction into a working environment -- will be the first to suffer. We know that job-cutting is the furthest thing from the minds of the committee -- but we also are firmly convinced that this is exactly what will be accomplished within the framework of this bill. The end result promises to bar the door against youth that want to work and

will accept wages keyed to their skill.

We would sincerely urge the committee to consider a youth wage provision for youth differential for a beginning worker under 18, subject to state laws ... established at some equitable portion of the minimum wage -- say 75% to 80%.

We have mentioned several times the incredible cost increases S. 1871 would visit on Holiday Inns ... and the entire travel industry. It also unfairly increases the cost of operations burden between those companies required to pay federal minimum wage and those who are exempt because of an annual gross revenue less than $250,000.

Obviously, such prospects send us back to the drawing boards to see what, if any, options we have ... and none are very appealing. Let us share a few with you ... and as you consider them we ask you to react as one of our customers ... which we sincerely hope you are and will continue to be ... when faced with these changes in the operations of the Holiday Inn System you've come to know.

- o An increase in menu prices.
- o An increase in room rates.
- o Alterations in restaurants by reducing hours ... perhaps 25%.
- o Vending machines instead of coffee shops.

Also, S. 1871 could result in disemployment, due to the fact that our company will not be able to absorb the increased cost burden.

Summary

We feel that the proposed increases are unreasonable. We can understand an effort aimed at 7 to 10 percent annual increases, the kind reflected in many collective bargaining agreements. However, we believe that a 37 percent increase by 1980 is asking too much.

Our industry is maturing, and now rightfully takes its place as one of the major contributors to our nation's economy. We can still continue to grow and better serve the needs of the business and leisure-oriented traveling public. But that maturity carries with it a responsibility ... particularly to speak out when unwise or untimely public policy considerations threaten the stability so painstakingly built.

S. 1871 represents one of those considerations. As an issue, consideration of increasing the minimum wage is not bad. As a specific piece of legislation, S. 1871 could have a crippling effect on our industry. The abrupt and sizeable increases in the minimum wage, repeal of tip credit and automatic future escalation all combine to place an unreasonable and discriminatory burden on specific industries and classes of employees ... of which the travel industry and Holiday Inns are a part.

We oppose enactment of S. 1871 as proposed, it is too much, too quick, and ask the committee's reconsideration of its provisions.

If we can provide any additional data or information to assist in the redrafting process we will be more than happy to do so.

Thank you very much.

WASHINGTON OFFICE OF THE

Amalgamated Meat Cutters and Butcher Workmen of North America, (AFL-CIO)

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LEGISLATIVE REPRESENTATIVE

STATEMENT OF ARNOLD MAYER, LEGISLATIVE REPRESENTATIVE,

AMALGAMATED MEAT CUTTERS AND BUTCHER WORKMEN (AFL-CIO),

CONCERNING AMENDMENTS TO THE FAIR LABOR STANDARDS ACT

TO THE LABOR SUBCOMMITTEE,

COMMITTEE ON HUMAN RESOURCES,

UNITED STATES SENATE

AUGUST 30, 1977

My name is Arnold Mayer. I am the Legislative Representative of the Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO). The headquarters of the Amalgamated are at 2800 N. Sheridan Road, Chicago, Illinois 60657.

The Amalgamated is a labor union with 500,000 members organized in about 500 local unions throughout the United States and Canada. The Amalgamated and its local unions have contracts with thousands of employers in the meat, retail, poultry, egg, canning, leather, fish processing, sugar and fur industries.

1. SUPPORT FOR S. 1871

As this Committee knows, the Amalgamated has actively participated in the consideration of minimum wage legislation for more than three decades. We have strongly supported improvements in the Fair Labor Standards Act as a means of reducing poverty, increasing employment and providing equity to low wage workers.

R. EMMETT KELLY
Chicago, Ill.

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We strongly endorse S. 1871. While we would certainly like the Committee to approve a greater minimum wage increase and believe a greater increase is both merited and necessary, We understand the political realities and therefore support S. 1871 as compromise legislation.

We particularly welcome basing the minimum wage on a specific percentage of the gross average manufacturing wage and indexing the minimum accordingly. This approach is absolutely essential to permit low wage workers to keep up with the economy.

We shall not take the Committee's time by proving the need for a minimum wage increase or the need for the indexing mechanism. The AFL-CIO and other groups have adequately done that. We do wish to associate ourselves with the testimony of the AFL-CIO.

However, we consider S. 1871 to be an incomplete bill. It does not contain a provision concerning the Puerto Rican minimum wages nor does it address the problem of the sugar processing overtime exemption. We urge that the Committee add such provisions. This statement discusses these two issues.

2. PUERTO RICAN MINIMUM WAGE

Since 1940, the Fair Labor Standards Act has permitted lower minimum wage rates for Puerto Rico than for the mainland. But from the very start, Section 8(a) set forth a clear policy that parity with the mainland minimum should be achieved. That policy stated:

> "The policy of this Act with respect to industries or enterprises in Puerto Rico and the Virgin Islands engaged in commerce or in the production of goods for commerce is to reach as rapidly as is economically feasible without substantially curtailing employment the objective of the minimum wage prescribed in paragraph (1) of Section 6(a) in each such industry."

Unfortunately, that policy was disregarded for 32 years. In 1972, however, your Subcommittee and parent Committee took the first steps to move toward parity again. Your Subcommittee and Committee specifically wrote into S. 1861 a means to achieve parity gradually by providing specific annual minimum wage increases for Puerto Rico. According to S. 1861, all wage orders of less than 80 cents an hour were to go to $1.00 and wage orders of 80 cents an hour and more were to be increased 20 cents an hour each year until parity was reached.

In the report accompanying S. 1861, the Labor and Public Welfare Comittee stated:

Committee Report

"The bill provides for the gradual achievement of minimum wage parity for workers in Puerto Rico and the Virgin Islands with workers on the mainland.

"...The Committee was persuaded to provide for eventual parity for a wide variety of reasons. Consideration was given to the fact that the cost-of-living is higher on the Islands than on the mainland. For example, the Consumer Price Index (1957-1959=100) for all items in 1971 was 144.2 in Puerto Rico and 141.0 on the mainland. Moreover, the index of food prices was 160.3 in Puerto Rico as compared with 136.4 on the mainland; the index of transportation prices was 142.4 in Puerto Rico versus 137.5 on the mainland. And for personal care, the Puerto Rican index was 153.2 as compared with 134.9 on the mainland. In addition, profit margins of establishments are usually greater than for their national counterparts, and employers enjoy special advantages, such as exemption from Federal income taxes, subsidies, and exemption from local income taxes for a period of from 10 to 17 years, depending on location.

"...The Committee was impressed by the extensive financial and tax incentives designed to attract business to Puerto Rico. In A National Profile of Puerto Rico (March 1971), Ernst and Ernst describe in detail the various benefits to business of locating in Puerto Rico ranging from 100 percent exemption from income tax on industrial development income for qualified firms to such special location incentives for operations in areas outside of metropolitian San Juan, as offsets for costs of training, salaries, rents and mortgages. The Committee compared the advantages designed to attract business to Puerto Rico with wage data in the summary on labor, in Ernst and Ernst. In this summary, the average hourly wage in 1969 for 20 industry groups in Puerto Rico is shown at $1.82. The comparable figure for the mainland is given as $3.10. The Committee's intent is to improve the status of the Puerto Rican worker; parity with mainland workers with respect to the minimum wage is a necessary first step."

The Senate, as a whole, agreed with the Committee's move toward parity and approved the Puerto Rican provision but the other body did not consider parity as important. In the ensuing Senate-House conference, the insistence of the Senate conferees resulted in the re-establishment of the policy of parity and the initiation of annual increases for Puerto Rico and the Virgin Islands. The amount of the increases, however, was reduced.

In the Fair Labor Standards Act amendments which finally passed in 1974, wage orders of less than $1.40 an hour were increased 12 cents an hour a year and wage orders of $1.40 or more increased 15 cents an hour annually until parity is reached. As a result, some 70 percent of the workers of Puerto Rico are at minimum wage parity with the mainland now.

Your Committee accomplished this goal in the early 1970s despite the general opposition to parity of the Government of Puerto Rico and the general lack of interest of the other body. This year, the situation is different.

New Situation

The present Governor of Puerto Rico, Carlos Romero de Barcelo, and his Administration support specific legislation which will permit all Puerto Rican workers to reach mainland parity within four to five years. Governor Romero supports a provision which Resident Commissioner Baltasar Corrada del Rio was responsible for writing into the bill reported by the Education and Labor Committee of the other body. The House is expected to pass this Puerto Rican provision.

Our Union led a group of labor organizations in discussions with Governor Romero and Delegate Corrada which resulted in the following agreement for joint support as a minimum wage provision for Puerto Rico:

(a) Wage orders at parity with the mainland minimum as of December 31, 1977 will remain at parity.

(b) Wage orders ranging between $2.00 and $2.29 an hour on December 31, 1977 will increase 25 cents an hour on January 1, 1978 and 30 cents an hour on every January 1 thereafter until parity is reached.

(c) Wage orders below $2.00 an hour on December 31, 1977 will increase 20 cents an hour on January 1, 1978 and 25 cents an hour on each January 1 thereafter until they reach $2.30 an hour when they will increase by 30 cents an hour every January 1 until parity with the mainland is reached.

We want to congratulate Governor Romero and Delegate Corrada on their interest in and concern with the welfare of Puerto Rican workers. They have kept their election campaign promise of attempting to reach minimim wage parity as quickly as possible.

Our Union and other unions sought greater minimum wage increases for Puerto Rican workers. However, our need to compromise to reach an agreement with the Puerto Rican Administration does not detract from Governor Romero's and Delegate Corrada's sincerity in seeking speedy parity.

In the past, Puerto Rican political leaders strongly supported parity and major wage increases for workers when they were out of office, but opposed those increases when they attained the Governorship and other positions of power. Governor Romero and Delegate Corrada deserve great praise for rejecting this approach.

Chamber Testimony

The Subcommittee received testimony on August 5 from the Chamber of Commerce of Puerto Rico urging no minimum wage increase for Puerto Rico whatsoever. The Chamber pointed to the island's very high unemployment rate to urge forebearance. In no way did the Puerto Rican Chamber want to prevent workers from getting wage increases, it declared, --in fact, it strongly supports minimum wage increases everywhere else but Puerto Rico-- it was only worried about increasing unemployment!

Mr. Chairman and Members of the Committee, we reject the attack that minimum wage increases in Puerto Rico cause unemployment. We reject that canard as much as we reject the charge that the increases cause joblessness anywhere else in the United States. As the 1972 report of this Committee, which was quoted previously, points out, manufacturers in Puerto Rico have very specific advantages to keeping their plants in the island.

Wage rates are clearly not the only factor in industrial survival or in the attraction of investment capital. Reynolds, Gregory and Torruellas point out in their study of wages, productivity and employment in Puerto Rico that capital is attracted or repelled by a complex combination of factors and never "rushes" in or out. Investment money "oozes," they say.

True, Puerto Rican workers have been threatened with the competition of 10 to 50 cent an hour wage rates in Haiti, Santo Domingo and other areas. Also true, there are some quick buck industries in Puerto Rico which are attracted by those low wages. But if low wages were the only goal, those plants would have left long ago. They could not be kept in Puerto Rico anyway.

Even if the minimum wage for Puerto Rico were sharply reduced, the island could not compete with Haiti and Santo Domingo on wages alone. Even if wages were drastically cut in Puerto Rico, unemployment would not be stemmed.

Chamber Statistics

The Chamber of Commerce of Puerto Rico presented to you a fascinating table of "Wages and Employment of Production Workers" to aid to its argumentation against a minimum wage increase and to support its claim of unemployment-causation. We are reproducing that table:

WAGES AND EMPLOYMENT OF PRODUCTION WORKERS

Average Earnings Below 1968 Statutory Minimum	Average Hourly Earnings		Employment	
	1968	1976	1968	1976
Tobacco manufacturers	$1.34	$2.41	6,696	4,238
Textile mill products	1.50	2.36	7,583	3,973
Apparel	1.47	2.34	38,168	34,743
Leather, leather products	1.31	2.18	10,692	4,673
Wood products, furniture ...	1,41	2.40	3,783	2,907
Miscellaneous	1.46	2.78	3,507	2,741
Average or Total	1.43	2.36	70,429	53,275
Average Earnings Above 1968 Statutory Minimum				
Food, beverages	1.63	2.86	13,167	16,737
Paper, printing	1.98	3.37	2,479	2,772
Chemicals	1.98	3.90	3,074	8,362
Petroleum, rubber, plastics ..	1.93	3.93	4,631	4,526
Stone, clay, glass	1.89	3.15	5,214	4,077
Metal products	1,92	3.20	3,839	4,437
Machinery, transport. equip. .	2.04	3.48	1,536	3,588
Electrical mach. & equip. ...	1.78	3.05	8,012	11,624
Scientific instruments	1.73	3.05	3,432	9,227
Average or Total	1.81	3.22	45,384	65,350
ALL INDUSTRIES	1.59	2.86	115,813	118,625

Source: Census of Manufacturing Industries, Puerto Rico Department of Labor, October data.
Note: Statutory minimum wage was $1.60 an hour in 1968.

If the table shows a cause and effect relationship between wage rates and unemployment in an industry, it demonstrates that the lower the wage rates and the lower the wage increase, the greater the loss of jobs --or conversely, the higher the wages and the higher the increase, the greater the rise in employment. Compare, for example, the sharp drop in employment for the lowest paying industry in 1968 and 1976, leather, leather products, and the highest paying industry in 1968 and one of the highest in 1976, machinery, transportation equipment.

Frankly, we believe other factors caused the increased and decreased employment. But our little exercise shows the ridiculousness of the Chamber's and other employers' claims that increased minimum wages cause unemployment on the island.

Quite to the contrary, in the island, as a whole, increased minimum wages will spur employment by increasing consumer purchasing power. The island economy does not produce for export alone. It also produces for comsumption on the island by 3.2 million persons. Yet, purchasing power is sharply limited because of the low wages paid. Minimum wage increases will counteract that situation.

Cost of Living

There is no doubt that the Puerto Rican worker desperately needs minimum wage increases. In April, 1977, the average weekly wage in Puerto Rico was $112.48. This is approximately the same average weekly wage as a mainland worker earned in 1966.

Yet, the cost of living in San Juan is far above that of Washington, D. C. An updating of a 1953 U. S. Bureau of Labor Statistics study indicates that the cost of living in San Juan is 29.3 percent higher than in Washington.

In fact, the families of many Puerto Rican workers survive only because of transfer payments provided by U. S. social legislation. These transfer payments are expected to amount to $2.157 billion in FY 1978 or only $59 million less than $2.216 billion of all the wages and salaries paid in Puerto Rico by agriculture, manufacturing, construction and commerce, combined, according to the authoritative Dorvillier News Letter.

Over 1.5 million persons --half of the island's population-- receive food stamp benefits totalling $604 million. Because of changes in the law, some 200,000 additional persons in Puerto Rico are expected to receive benefits. Judging from the numbers participating, it is obvious that literally tens of thousands of families with full-time breadwinners must ask for food stamp help.

As the various members of this Committee know, our Union helped to lead the fight for the renewal of decent food stamp legislation. However, we question a wage system which provides so little in earnings that families with breadwinners who work full time are eligible for and must get food stamps to survive.

Employer Subsidy

The fact is that the U. S. taxpayer subsidizes the manufacturers of Puerto Rico through the food stamp and other welfare programs. These manufacturers and their establishments would hardly be free of major and destructive social unrest if the U. S. taxpayer were not supplementing the extremely low wages.

But consider the matter from the point of view of the worker. He or she works hard at a full-time job. Yet he or she can not get the satisfaction of being able to support the family. His or her wages must be supplemented by food stamps and other welfare programs.

This situation is unfair to the Puerto Rican worker, as it is to the taxpayer. It is vital that Puerto Rican wages be increased and that work be rewarded. One effective way of achieving that goal is to increase the Puerto Rican minimum wage.

First Class Worker

Mr. Chairman and Members of the Committee, we absolutely and categorically reject the idea that the worker in Puerto Rico is a second class employee and should be paid lower wages than mainland workers. It is absolutely untrue that Puerto Rican workers are less productive or less efficient than workers on the mainland.

There is no justification for discriminating against these workers other than to increase the profits of manufacturing enterprises and other employers in Puerto Rico. We urge you to reject such discrimination. It is unfair. It is unjustified. It is callous. And it causes great suffering.

As we have previously stated, the Puerto Rican government has proposed a very specific plan for minimum wage increases. That provision has been approved by the Education and Labor Committee of the other body. Unfortunately, S. 1871, now before the Subcommittee, which initiated the renewed call for Puerto Rican minimum wage parity, does not contain any Puerto Rican provision.

This failure --if permitted to continue-- would mean not only that the move to parity would be stopped, but there would be regression. Puerto Rican workers would fall farther and farther behind mainland workers in minimum wages each year. They would receive only 15 cent annual increases while mainland minimum wages increase more.

Obviously, that is highly unsatisfactory. We therefore urge that the Subcommittee add to S. 1871 the Puerto Rican minimum wage formula proposed by the Puerto Rican Government.

3. SUGAR PROCESSING OVERTIME EXEMPTION

A second area in which S. 1871 is deficient concerns the sugar processing overtime exemption. The Fair Labor Standards Act currently provides in Section 13(b)(26) for an overtime exemption of six weeks a year of 60 hours, four weeks of 56 hours, two weeks of 48 hours and two weeks of 44 hours. We believe this exemption is unjustified and should be eliminated.

The sugar industry is about to be highly subsidized again by the federal government. Either through the imposition of quotas on sugar imports or the payment of subsidies or both, the federal government will buttress the income of sugar growers, according to the pending conference report of the omnibus farm bill.

Why should not this industry meet its responsibility of paying time and one-half rates for work over 40 hours as most other agricultural processing industries are now doing? This question become particularly pertinent with the realization that very few of the other agricultural processing industries are subsidized by the taxpayers and consumers, as the sugar industry will be shortly.

There are 37 raw sugar mills in Louisiana now exempt from the full overtime pay provisions of the Fair Labor Standards Act. These mills are industrial factories by any definition and are engaged in the manufacturing of raw cane sugar from sugar cane after delivery to the factory. The grinding operations begin about October 15 of each year and end about January 15. The operations of some mills are on two 12 hour shifts per day, 7 days per week until the entire cane crop is harvested and delivered to the mills. Some other mills are planning to go to three shifts of 8 hours, 7 days per week in the season.

The end product is crystalized brown or raw sugar, later sold to other sugar factories for further refining into white sugar. The conversion of sugar syrup to raw or to refined sugar is similar. Both the raw sugar factories and the refined sugar factories, which are fully covered by FLSA, use the same basic mechanical equipment and chemical techniques.

Both raw sugar mills and sugar refineries operate on a continuous 24 hour basis during the conversion process. At the present time, there are at least three combination grinding mills and sugar refineries in operation in Louisiana in which the cane juice comes out at the end of the process as refined white sugar. The sameness of the operations on the same basic product is thus established.

Nevertheless, employees of all raw sugar mill operations --the first processing workers-- are partially exempt from the overtime provisions of the Fair Labor Standards Act.

Unfairness of the Exemption

This exemption is grossly unfair to employees engaged in the operations of these mills. It should and can be eliminated for the following reasons:

1. These exempted workers desperately need the money which would be provided by time and one-half rates for overtime. Most of the first processing workers work at or slightly above the minimum wage. They do not have year-round work. Their annual income is far below the poverty level.

2. The cutback in the overtime exemption in the 1974 legislation caused no real problems. In fact, some grinding mills are now going on a three shift basis on their own. As a result, more jobs will be created.

3. The fact that the refineries, which are covered by the FLSA's full overtime coverage, and the raw sugar mills, do basically the same work points out the ridiculousness of the exemption. The refineries also work long hours but pay time and one-half rates for overtime. Some firms actually operate combined raw mills and refineries.

4. The industry is dominated by large firms. In Louisiana, two corporations, South Coast and Southdown, which are parts of conglomerates, handle most of the cane. They are the growers, the first processing operators and the refiners. They are an example of the industry's ability to pay time and one-half rates for overtime to first processing workers in the raw mills.

5. The domestic sugar industry is government protected through federal legislation. It is protected from crop damage, storm damage, freezing, over-production, changes in price, etc. Only the workers are the unprotected.

In short, there is no justification for the overtime exemptions covering sugar first processing workers. There is no economic reason for it. It is clearly a reflection of the desire of the sugar industry not only to be subsidized by government, but also by their poverty-striken workers. We respectfully urge that you eliminate this exemption Section 13(b) (26).

4. LEGISLATIVE NEED

We appreciate the consideration you are giving to revisions of the Fair Labor Standards to improve the conditions of low wage workers. The Amalgamated Meat Cutters and Butcher Workmen (AFL-CIO) supports S. 1871, but we urge that you add some necessary provisions to it, particularly (1) the proposal of Governor Romero and Delegate Corrada of Puerto Rico to bring minimum wage parity over a four or five year period to workers in Puerto Rico and (2) the elimination of the sugar processing overtime exemption.

# # # # # # #

YOUTH FOR A FAIR MINIMUM WAGE

We, the undersigned youth leaders urge the Carter Administration and the Congress to act immediately in support of a decent minimum wage that is above the poverty line. Furthermore, we appeal to Congressional leaders and the President to state vigorously their commitment to an established wage floor for all Americans. We are:

FOR a $3 an hour minimum wage.

FOR a cost of living index that sets the minimum wage at 60 percent of the annual average manufacturing wage, beginning Jan. 1, 1978.

Opponents of a fair minimum wage have dragged out the same weary arguments they used in the past. They say that a minimum wage above the poverty line would 1) fuel inflation, 2) increase unemployment, particularly among teenage workers. There is little evidence to back these claims. In fact, successive studies by the U.S. Department of Labor under both Republican and Democratic Administrations have drawn the opposite conclusion. According to the Labor Department, the real effect of minimum wage increases is to "help workers recover some of the purchasing power eroded by the steady upward movement of prices. . ."*

Young people are a substantial portion of those workers who earn the minimum wage. Their pay rate is 61 cents an hour below the official poverty line. Working in small retail stores and fast food restaurants, forced into part-time work because there are few full-time jobs, young Americans are a vast, exploited segment of the U.S. work force. As a result of their artificially low incomes, young people--especially minorities--suffer from inadequate health care and housing. Increasingly, they are unable to afford any sort of post-high school education and cannot support themselves or their families.

Despite the tragic plight of America's youth, opponents of a fair minimum wage would force young workers to accept a sub-minimum wage for performing the jobs they do now. We are:

AGAINST a sub-minimum wage for young people or any other group.

A sub-minimum wage would put adult breadwinners out of work, would drive young working people deeper into poverty and would not really make a dent in the serious problem of chronic youth unemployment.

In recent months, the Carter Administration has renewed the traditional American commitment to human rights around the world. In that same spirit, we urge the Administration to demonstrate its commitment to the economic rights of the working poor in the United States by supporting a decent, fair minimum wage.

*from a January, 1971 Report to Congress by former Secretary of Labor Hodgson.

YOUTH FOR A FAIR MINIMUM WAGE

Organization listed for purposes of identification only.

Bill Ross, Executive Director
Recruitment and Training Program

Manny Santana, First Secretary for International Affairs
ABDALA

Bob Lubetsky, Executive Director
Encampment for Citizenship

Steve Hayes, Director, Special Projects
Young Men's Christian Association

James Brown, Director, Youth and College Division
National Association for the Advancement of Colored People

Dwayne Holman, President
Young Democrats of America

Nick Nicholson, Executive Director and First Vice President
Young Democrats of America

Tom Tobin, President
US National Student Association

Richard Kinane, Acting Director
US National Student Association

Jeff Wice, National Youth Chairperson
Americans for Democratic Action

Shari Immidiato, President
College Democrats of America

Sam Prince, Field Representative
American Zionist Youth Foundation

Raul Yzaquirre, National Director
National Council of La RAZA

Gene Lynch, Executive Director
Frontlash

Jessica Smith, Associate Director
Frontlash

Note: This is not a complete list.

JOHN D. LOFTON 8/1/77

Meany Is Flat Wrong

WASHINGTON — In a letter to every member of the House of Representatives, AFL-CIO President George Meany says: "There is not an iota of truth to the contention that a higher minimum wage causes unemployment at all."

Strictly speaking, Mr. Meany is correct. There are, in fact, several iotas of truth to the contention that a higher minimum wage reduces job opportunities, particularly for black teen-agers.

First, the most recent evidence:

Iota One: A study, "Youth and Minority Unemployment," released this month by the congressional Joint Economic Committee, authored by Walter Williams, a black, who is an associate professor of economics at Temple University, this study, which reviews numerous other analyses of the minimum wage, concludes:

"The most adverse employment effects (of an increased minimum wage) fall upon those workers who are most disadvantaged in terms of marketable skills, who lose their jobs and income . . .

"In the U.S. labor force, there are at least two segments that share the marginal work characteristic to a greater extent than do other segments. The first group consists of youths . . .

"The second group, which contains members of the first group, are some ethnic groups such as Negroes, who as a result of racial discrimination and a number of other socio-economic factors are disproportionately found among marginal workers."

Iota Two: In 1976, the liberal-leaning Brookings Institution issued a paper, "Impact of Minimum Wages on Other Wages, Employment and Family Incomes," by University of Michigan economist Edward Gramlich, which found that teen-agers are the biggest losers when the minimum wage is raised. Often this segment of low-income workers are forced from full-time to part-time employment.

Iota Three: Also last year, in a report "Minimum Wage Legislation and the Youth Labor Market," issued by the conservative-leaning Center for the Study of American Business at Washington University in St. Louis, Mo., James Regan, now an economist at the N.Y. Federal Reserve Bank, found that if increases in the minimum wage had not occurred between 1966 and 1971 "our model indicates that youth employment would have been 320,000 persons higher in 1972 than it actually was and the aggregate youth unemployment rate would have been 3.8 percentage points lower."

Iota Four: Another paper issued last year by the Urban Institute's Terence Kelly, titled "Two Policy Questions Regarding the Minimum Wage," declared:

"The minimum wage does affect the industrial distribution of teen-agers, and, further, it affects that distribution in such a way as to cause a net reduction in employment opportunities."

Iota Five: Last year the nonpartisan Congressional Budget Office issued a study, "Policy Options for the Teenage Unemployment Problem," which said:

"Public regulation of the labor market, by means such as minimum wage laws, add to teenagers' problems in finding jobs and acquiring job experience . . . More extensive use of a differential (lower) minimum wage . . . could stimulate demand for teenage labor."

Iota Six: In 1975, in an interview, Robert Goldfarb, an associate professor of economics at George Washington University who at the time was reviewing the major studies of the minimum wage, told me that the numbers he had seen indicated that there might be a 3 - to - 5 per cent increase in teen-age employment if the minimum wage was cut 25 per cent.

Prof. Goldfarb, who believes it is clear there is a correlation between a higher minimum wage and decreasing employment, said he would vote against such an increase if he were in Congress.

Iota Seven: In 1970, a study released by Labor Dept. Commissioner of Labor Statistics Geoffrey Moore, concluded that while it was difficult to disentangle the effects of a higher minimum wage from other influences that cause unemployment, nevertheless, evidence from a variety of sources — including experience in foreign countries — suggests that "a substantial differential between youth and adult rates would increase job opportunities for teen-agers."

Iota Eight: In 1969, in a study for the American Enterprise Institute, titled "Employment Effects of the Minimum Wage Rates, John Peterson, administrator of the Arkansas Employment Security Division, observed that higher minimum wages impacted most adversely on workers who are disadvantaged in terms of skills or location. Specifically, said Peterson, this means teens, non-whites, and women.

When George Meany says there's not an iota of truth to the contention that a higher minimum wage causes increased joblessness, he's flat wrong. But then this is not surprising. Mr. Meany is not seeking truth. His arguments for higher wage are not based on economics, they are political.

I hope the congressmen who take the time to read his letter realize this.

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NATIONAL LUMBER AND BUILDING NLBMDA MATERIAL DEALERS ASSOCIATION

July 28, 1977

The Honorable Harrison Williams
Chairman
Subcommittee on Labor
Senate Human Resources Committee
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

Attached is a copy of our statement concerning your bill, S. 1871, Fair Labor Standards Amendments of 1977, which is presently being considered by your distinguished Subcommittee on Labor.

We would be most grateful to you, Mr. Chairman, for your consideration of our views concerning the minimum wage and for inclusion of our statement into the record of your hearings.

Thank you very much.

Sincerely,

Richard D. Snyder, CAE
Executive Vice President

RDS/vml

1990 M Street, N.W., Suite 350 • Washington, D. C. 20036 • (202) 872-8860

STATEMENT
NATIONAL LUMBER & BUILDING MATERIAL DEALERS ASSOCIATION
ON S. 1871
"FAIR LABOR STANDARDS AMENDMENTS OF 1977"
TO THE
SUBCOMMITTEE ON LABOR
SENATE HUMAN RESOURCES COMMITTEE

July 28, 1977

The National Lumber and Building Material Dealers Association consists of 29 federated state and regional retail lumber and building material dealers associations with an aggregate membership of some 15,000 companies throughout the United States. Our members supply building materials for the majority of the housing built in the United States, as well as a considerable amount of commercial and industrial construction. We also sell building materials to consumers. Approximately one-third of our members are directly involved in residential home building and remodeling. One out of five is engaged in the manufacture of building components; many provide financing, develop land for building and some are very active in commercial contracting.

The great majority of our members would be classified as small businessmen by any definition. The NLBMDA appreciates this opportunity to comment before the distinguished Subcommittee on Labor of the Senate Human Resources Committee concerning the pending legislation, S. 1871, the Fair Labor Standards Amendments of 1977.

We do not feel that passage of S. 1871, as proposed, is warranted especially at this time when we are trying to control inflation. We believe that an increase in the minimum wage would be most detrimental and assuredly would have a negative effect on all segments of the economy. It is an economic truism that any minimum wage increase ripples throughout the entire business payroll and its impact is felt throughout every business, as well as the economy in general.

This bill under discussion has a major innovation: tying future minimum wage increases to a government index - the annual average earnings of production workers on manufacturing payrolls. The NLBMDA is opposed to any indexing of the minimum wage. Whenever indexing has been used in the past, it has been inherently inflationary.

The growing number of unemployed American young people is a concern of this organization. The proposed legislation makes no mention of nor any method of assistance to the unemployed teenager. The NLBMDA supports the establishment of a youth differential rate.

The NLBMDA, representing small business, supports language being included in the bill to differentiate among businesses of varying size and to provide for phased-in increases which have traditionally been a part of previous minimum wage legislation. It is an unfortunate fact of life that often times small business has to operate under the same legislative and regulatory rules as big business and the inequalities of such situations is sometimes harmful.

In summary, the NLBMDA strongly commends to the attention and consideration of the Subcommittee, as well as the entire Congress, the following timely suggestions:

(1) Since the last phased-in rate of the 1974 Fair Labor Standards Amendment of $2.30 an hour became effective recently on January 1, 1977, any further increases in the minimum wage should not occur during 1977.

(2) Any new minimum wage bill should contain a provision for youth differential to help combat one of America's real economic and social ills - teenage unemployment.

(3) Whatever future increases in the minimum wage scale might be, it should not be set through any unproven indexing procedure. The in-

novation is too drastic and the consequences could prove to be dangerously inflationary.

(4) Any minimum wage increases should reflect the disparate sizes of businesses in the country, and allowances should be made for smaller businesses by permitting phased-in rates over a multi-year period.

Your consideration of our views would be greatly appreciated as well as the inclusion of our statement into the record of the hearings of the Subcommittee.

National Canners Association
1133 Twentieth Street N.W.
Washington, D.C. 20036
Telephone 202/331-5900

Legislative Affairs Division
Jerome R. Gulan
Director/Vice President
202/331-5939

August 3, 1977

The Honorable Harrison A. Williams, Jr.
Chairman
Subcommittee on Labor
Committee on Human Resources
U. S. Senate
G-237 Dirksen Senate Office Bldg.
Washington, D. C. 20510

Dear Mr. Chairman:

Attached is the National Canners Association's statement on S. 1871. We would appreciate it if this statement were made a part of your hearing record and we hope your subcommittee will consider our views during markup.

The canning industry, which is a seasonal food processing industry, had its overtime exemptions phased out by the 1974 Fair Labor Standards Act Amendments. The first time the seasonal food processing industry came under the full requirements of the 1974 minimum wage law was January 1, 1977. The rise in the minimum wage to $2.65 per hour as per S. 1871, and future increases set on the escalator basis would continue our industry on an extremely steep increase in minimum wage rates. We urge you to look carefully at our arguments against large increases in the minimum wage.

Further, the industry strongly opposes the idea of tying future increases to the average hourly manufacturing rate, which would not necessarily reflect rises in production in the economy and thus would become a built in inflationary factor.

We would be pleased if you would take our views into consideration.

Sincerely,

Jerome R. Gulan
Vice President

Attachment

August 3, 1977

NATIONAL CANNERS ASSOCIATION STATEMENT
TO THE SENATE COMMITTEE
ON HUMAN RESOURCES
SUBCOMMITTEE ON LABOR
IN OPPOSITION TO S. 1871

This statement is submitted on behalf of the National Canners Association (NCA) whose 515 members pack approximately 90 percent of the nationwide production of canned food. Our members are appalled to see legislation proposed which would mandate action permanently that will aggravate and intensify the two most important economic problems the U. S. has faced in recent years, namely, an unacceptably high rate of unemployment and a continuous high rate of inflation.

The minimum wage is currently $2.30. If S. 1871 becomes law, the minimum wage would be increased to $2.65 on January 1, 1978. The law also provides for an increase effective January 1, 1979 and indexes the minimum wage at 53 percent of the average straight time hourly earnings of production workers on manufacturing payrolls starting with January 1, 1980 and for each succeeding year for as long as the law is in existence.

The increase in the minimum wage January 1, 1978 would amount to a 15 percent increase over 1977. Based on recent rates of increase in average hourly earnings of production line workers in manufacturing, the minimum wage would increase an additional 16 percent from January 1, 1978 to January 1, 1979, and approximately 10 percent from January 1, 1979 to January 1, 1980.

The impact on labor costs in manufacturing and service industries would be considerably greater than that reflected by the minimum wage itself. In recent years, fringe benefits have been increasing faster than the base wage rate. NCA member companies reported in a survey this past February, that fringe benefits in the canning industry were equivalent to 29.7 percent of the beginning wage rate for permanent production line workers. Thus, under S. 1871 canners would be looking at a minimum hourly cost of almost $3.44 per hour on January 1, 1978, $3.98 on January 1, 1979, and approximately $4.38 on January 1, 1980.

The above projected increases in the minimum hourly cost of labor does not take into account the circular upward pressure on all wages that would be generated by the indexing provision. In the previously mentioned survey of NCA member companies, the average spread between the lowest and highest wage rates for production line workers was $2.07 per hour. This spread reflects the wage rate differentials for skills and longevity. As the minimum wage rate is increased according to the provisions of S. 1871, the entire wage scale will tend to rise to maintain the skill and longevity differentials. Consequently, S. 1871 will build in an automatic annual escalation of all wage rates.

Given the percentage increases in the minimum wage rate for January 1, 1978 and January 1, 1979, the rate of escalation in wage rates would be locked in at about a 10 percent per year rate -- almost triple the long run rate of increase in total productivity in the economy. Consequently, we will face a constant upward trend in labor cost per unit. This ever increasing labor cost can be expected to result in constant inflationary pressures in the economy.

Increasing the minimum wage to levels proposed by S. 1871 will not only make it more difficult for new entrants to the labor force to find jobs but likely will jeopardize some jobs already in existence -- those jobs which can be automated or unskilled jobs that can be eliminated without jeopardizing production.

The changes in the minimum wage proposed in S. 1871 will have a greater impact on the employment situation than any previous change in the minimum wage for two reasons. First, the minimum wage now has wider coverage of jobs in industry than ever before. During the 1960's a large number of exemptions to the minimum wage existed in law. These exemptions have now been phased out with the exception of agricultural workers and the agricultural exemption will end January 1, 1978.

Second, in the past the minimum wage tended to decline relative to the general wage scale as wages worked their way upward. For example, in September 1963, when the minimum wage increased to $1.25 per hour from $1.15, it represented 50.6 percent of the average hourly wage in manufacturing. By January 1967, the minimum wage was only 45 percent of the average wage. Normal economic growth made the minimum wage less of an impediment to hiring new and unskilled workers over the intervening three and one-half years. However, under the proposed indexing provision under consideration, the minimum wage will be held continuously at approximately 53 percent of the average wage.

The period 1961 through 1966 demonstrates that sound economic growth can be achieved at stable prices and that such growth promotes full employment and rising wage rates. Unemployment declined from 7.8 percent the first quarter of 1961 to 3.4 percent the fourth quarter of 1966. The average hourly wage in manufacturing increased 20.5 percent from 2.29 in the first quarter of 1961 to the fourth quarter of 1966 but the consumer price index increased only 10.3 percent during this same period of time. Over the 5 3/4 years of this period the annual rate of price increase was 1.8 percent compared with an annual rate of increase in hourly earnings of 3.6 percent. As a result, the real earnings per hour increased 9.5 percent or an annual rate of 1.7 percent. Moreover, the average number of hours worked per week increased from 39.2 to 41.2 further increasing the purchasing power of the worker. This economic growth and return to full employment was achieved with an annual average Federal budget deficit of 3.9 billion.

The above performance is vastly superior to the comparable period from the first quarter of 1971 to the fourth quarter of 1976. During this period, consumer prices rose 45 percent and unemployment increased from 6.5 percent to 7.9 percent in spite of an annual Federal deficit of 30.9 billion during the five intervening fiscal years. Thus, in spite of constant and heavy deficit spending, unemployment and a high rate of inflation continue to be serious problems. It must be remembered that during the 72 months in this period, wage and price controls were in place 33 months.

The minimum wage was increased from 1.00 an hour to 1.15 in 1961 and then to 1.25 per hour in 1963 and remained at this level throughout the balance of the 1961-66 period. The minimum wage was 1.60 per hour in the first quarter of 1971 and increased in 1974, 1975 and 1976. Prior to the increase in minimum wages in February 1967, about 50 percent of wage and salary workers in the United States were not covered by minimum wage and 37 percent of employees in private industry were not covered. Today the coverage is almost complete and the last exemption will be phased out January 1, 1978 by S. 1871. This steady broadening of coverage in recent years likely is an important factor in the failure of large budget deficits to move the economy back to a more acceptable level of unemployment. Stimulating aggregate demand through deficit spending will do nothing to pull into employment those unskilled workers who have been priced out-of-the-market by an artificially high minimum wage.

The National Canners Association strongly believes that the solution to the working man's objectives of access to a job and a rising standard of living is served far better by the type of sound economic growth that was obtained during the 1961-66 period than by making a part of the labor force unemployable by pricing them out of the market -- particularly for new entrants to the labor force. Other aspects of community life such as education, police and fire protection, and peace of mind of the retired also fare better under the stable prices that existed in the first half of the 1960's than has been the case in recent years. Therefore, the National Canners Association would propose to make no further increase in the minimum wage and concentrate on eliminating impediments to investment and growth in the private sector of the economy.

For the foregoing reasons, the National Canners Association opposes the minimum wage increases at this time, and because of its strong inflationary effect, strongly opposes the indexing provisions contained in S. 1871.

International Fabricare Institute
P.O. BOX 940 · JOLIET, ILLINOIS 60434, USA · (815) 727-6600

Reply to: Joliet

July 26, 1977

Senator Harrison A. Williams, Jr. Chairman
Subcommittee on Labor
Senate Committee on Human Resources
4230 Dirksen Senate Office Bldg.
Washington, DC 20510

Dear Chairman Williams:

As the trade association for the fabricare industry we strongly oppose Bill S 1871 to amend the Fair Labor Standards Act. We represent dry-cleaning and laundering firms, the vast majority of which are considered very small businesses. The proposed immediate increase coupled with unstoppable annual increases will simply serve to force many companies out of business and the remaining ones to reduce the number of employees.

We are well aware of comment to the contrary--that annual increases will not cause unemployment and inflation. We can't speak for other industries, but we can comment on the fabricare industry and this bill will have an adverse economic impact.

This is a service industry and labor costs in many fabricare plants already eat up over $.50 of every dollar of sales volume. Automatic increases in the relative wage scale will mean that employers will either have to cut back on the number of employees, raise prices, or go out of business. All of these alternatives would be detrimental to the economy.

Traditionally, our industry has had entry-level jobs for those often hard-to-place employees--youths, handicapped and unskilled workers. A forced cut back on employees would mean loss of job opportunities for these groups.

With mounting costs to industry, including ours, to comply with regulations of the Occupational Safety and Health Administration and the Environmental Protection Agency, additional increases in wages will only expedite attrition of many small businesses. This will be particularly true of those businesses with a high proportion of operating costs being labor.

In the past decade the number of professional fabricare plants has diminished significantly. This is the result of several factors, not the least of which is the increased cost of doing business. Small businesses operating on a small profit margin cannot absorb drastic cost increases.

The adverse, inflationary effect this bill will have on the overall economy will also hit businesses very hard. Elected representatives must curtail legislation which has escalator concepts tied to indices which reflect inflationary pressures. Some effort must be made to stabilize the economy. This minimum wage amendment encourages inflation.

It will force more industries to seek salary supplements under the current federal policy of providing wage supplements to employees in the industries which are disadvantaged by less costly import competition. Here, in effect, the government is applying a double standard for which tax dollars, higher prices and inflation are the major factors.

Congress should not enact a law which automatically increases costs on industry and inflation without full hearings and roll call votes. Businesses don't tie price increases to some automatic escalator clause. But, this bill would automatically increase one major factor that influences pricing.

Is it fair for one Congress to legislatively set the minimum wage for all citizens in the future?

Price increases and loss of jobs can only reduce employees' economic well being. Enactment of S 1871 will not serve the best interests of business and employees.

Sincerely,

Charles R. Riggott

Charles R. Riggott
Exec. Vice Pres. & Gen. Mgr.

cac

NATIONAL ASSOCIATION OF HOME BUILDERS

National Housing Center

15TH AND M STREETS, N.W., WASHINGTON, D.C. 20005

TELEX 89-2600 TELEPHONE (202) 452-0200

August 31, 1977

The Honorable Harrison A. Williams
Chairman
Subcommittee on Labor
Committee on Human Resources
United States Senate
Washington, D. C. 20510

Dear Mr. Chairman:

I should like to request that this letter be included in the record of the hearings recently conducted by the Subcommittee on Labor on S. 1871, which would increase the Federal minimum wage and provide for automatic annual increases in the minimum wage. The National Association of Home Builders is the trade association of the home building industry. We represent over 88,000 member firms in 639 state and local associations in the 50 states and Puerto Rico. Our member firms employ hundreds of thousands of workers who are affected by the minimum wage law. We are concerned, therefore, with legislation which would substantially change the present minimum wage law when such changes would increase costs annually for a most important component of our business--labor.

We urge the Subcommittee to review carefully any proposed and annual automatic increase in the minimum wage to determine whether such increases will create greater unemployment and cause an acceleration in inflation in the housing industry, which is currently suffering the effects of stepped-up costs increases for virtually all products used in construction. Such increases result in fewer families being able to afford housing and, thus, fewer housing units being constructed.

While it is true that the average hourly wage of construction workers is generally higher than found in other industries, any substantial increase in the basic minimum wage will have a ripple effect through all wage levels in construction. The construction crafts maintain wage differentials between each craft based upon degrees of work skill required for that craft. Thus, a large increase in the lower or unskilled wage levels will create pressures for increases at all wage levels.

Since 1970, construction wages have increased by 68%, bringing the average hourly wage, including fringe benefits of a building tradesman to $11.46. Such high wage increases have led to the present trend in housing construction for builders to produce more housing components in shops or factories where labor costs are lower. This has reduced on-site employment for construction trades. To compensate for reduced manpower, construction unions demand higher wages for those still working. Further high increases in labor costs can have only one result - fewer on-site construction workers. At the same time, an increase in the minimum wage will mean higher labor costs in all industries - including those providing basic materials for construction. The higher labor costs will be passed on to the builder in the form of higher pricec construction materials. In sum, the only result to the construction industry of a high increase in the minimum wage will be increased costs, and probable lower employment.

The changes proposed to tie the minimum wage to a percentage of the average hourly earnings of production workers in the manufacturing sector would also have an adverse effect on the home building industry. Besides automatically inflating annual wage demands, it will be increasingly difficult for builders to bid on long-term contracts since it would be impossible for any builder to predict what the minimum wage increase would be during the life of a contract. In addition, contracts already entered into would be placed in jeopardy since the builder or contractor is locked into a set price and has no way to be reimbursed for increased labor costs due to annual increases.

The inevitable result of the changes proposed in S. 1871 would be marked and unavoidable increase in construction costs. Such added costs will have to be borne by the home buyer and renter through increased sales prices and rents. This would have to be on top of construction cost increases for housing which has been about 75% from 1970 through 1976.

These increases would come at a time when the median price of a single family house is $49,000, and only about 20% of American families can afford to purchase the median priced home.

NAHB is not opposed to a reasonable increase in the minimum wage such as a 20 to 25 cent increase each year for the next three years. However, any automatic annual increase in the minimum wage, particularly one that is tied to wages in manufacturing, could be quite detrimental to the entire country since the inflationary effect of such increases on the economy are unknown. Therefore, the responsibility to review the law and establish appropriate increases in the minimum wage should remain with Congress.

We urge the Subcommittee to take these comments into consideration in connection with its deliberations of S. 1871. If we can supply further data or information that would be helpful to the Subcommittee, we will be glad to do so.

Sincerely,

Robert Arquilla

Robert Arquilla
President

The CHAIRMAN. The hearing is now adjourned.
[Whereupon, at 11 :22 a.m., the hearing concluded.]

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