

June 3, 1977

MINIMUM WAGE: AN UPDATE

STATUS:

H.R. 3744 (the Fair Labor Standards Amendments of 1977) was introduced by Rep. John Dent (D-Pa.) and referred to the House Education and Labor Committee. On March 9 and 16 the Subcommittee on Fair Labor Standards held hearings. The bill is still in this Subcommittee pending mark-up and is expected to be on the floor of the House by the end of June.

BACKGROUND:

At the present time, the minimum wage is \$2.30 per hour. This became effective January 1, 1976. In the period between 1965 and 1976, the minimum wage went from \$1.25 per hour to \$2.30. Rep. Dent's proposal would increase this to \$2.85 while the AFL-CIO's proposal is \$3.00. President Carter has indicated he would accept an immediate increase to \$2.70 per hour which is higher than his original proposal of \$2.50.

MAJOR PROVISIONS OF THE BILL:

Section 2 of H.R. 3744 would amend Section 6(a)(1) of the Act (pre-1974 non-agricultural coverage) to the following:

55% of the average hourly earnings in manufacturing 30 days after enactment (estimated \$2.85). 60% of the average hourly earnings in manufacturing effective January 1, 1978 (and adjusted annually thereafter estimated \$3.10).

Furthermore, it would repeal the "tip credit" effective 30 days after enactment and for the first time index the minimum wage to the average hourly earnings of production workers on manufacturing payrolls for the 12-month period ending the next September 30 preceding the November 30 Federal Register publication date.

ARGUMENTS FOR:

Increasing the minimum wage would bring low-wage workers above the federal government's poverty level. Raising the minimum wage to \$2.85 or \$3.00 an hour would help the economy by increasing the spending power of individual workers. The cost of living has increased so that it is necessary to increase the minimum wage just to maintain a decent standard of living. Minimum wage rates act as a check to low-wage competition. This is particularly evident in comparison between average wage rates in the industrialized Northeast and Northcentral states vs. Southern and Southwestern states. By indexation of the minimum wage to manufacturing payrolls, employees would benefit by being able to anticipate, on a regular basis, changes in the minimum wage. Furthermore with regards to the repeal of the tip credit, no employee should have to rely on the generosity of customers to earn a decent wage. His employer should have to pay for it and not the customer.

ARGUMENTS AGAINST:

The whole question of a comparable increase in productivity has not been addressed by the advocates of an increased minimum wage. Recent evidence shows that the minimum wage hurts those groups that are the most economically disadvantaged -- primarily women, the elderly, the mentally and physically handicapped, young people, and racial minorities. These groups are marginal in the sense that they are traditionally unskilled or semi-skilled. When the minimum wage goes up, if they are not productive enough to merit these increased wages, they will in most cases be replaced by more cost-effective workers, equipment, or methods. Obviously these people will then join the welfare roles.

In a paper presented before the 23rd annual meeting of the Industrial Relations Research Association, Ohio University economists Gene L. Chapin and Douglas K. Adie declared "Increases in federal minimum wage 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 rigorous."

According to the following chart, a look at the unemployment rates of the last five years will point out the disparity between adults and teenagers.

MINIMUM WAGE AND UNEMPLOYMENT (1965-76)

Year	Minimum wage	Unemployment rate (adult) (percent)	Total employed (adult)	Total unemployed (adult)	Unemployment rate: Teenagers (16 to 19) (percent)	Unemployment rate: Teenagers (white) (percent)	Unemployment rate: Teenagers (nonwhite) (percent)	Total teenage employment	Total teenage unemployment	Change in unemployment rate: Teenagers from previous year (percent)
1965	\$1.25	4.5	69,032,000	2,492,000	15.6	14.2	26.1	5,037,000	872,000	
1966	1.25	3.8	67,174,000	2,040,000	13.2	11.1	25.1	5,720,000	836,000	-
1967	1.40	3.8	68,691,000	2,137,000	12.9	11.0	26.3	6,251,000	839,000	-
1968	1.60	3.6	70,140,000	1,987,000	12.7	11.0	25.4	5,780,000	839,000	-2
1969	1.60	3.5	71,785,000	1,977,000	12.2	10.7	24.1	6,117,000	853,000	-5
1970	1.60	4.9	72,477,000	2,983,000	15.2	13.5	29.1	6,142,000	1,106,000	+3.0
1971	1.60	5.9	72,934,000	3,736,000	16.9	15.1	31.7	6,195,000	1,258,000	+1.7
1972	1.60	6.6	74,980,000	3,538,000	16.2	14.2	33.5	6,722,000	1,301,000	-7
1973	1.60	4.9	77,173,000	3,079,000	14.5	12.6	30.3	7,236,000	1,325,000	-1.7
1974	2.00	6.6	78,533,000	3,666,000	16.0	14.0	32.9	7,403,000	1,410,000	-1.5
1975	2.10	8.5	77,737,000	6,077,000	19.9	17.9	36.8	7,046,000	1,753,000	+3.9
1976	2.30	7.9	80,216,000	6,586,000	19.0	16.9	32.1	6,969,000	1,701,000	-9

In 1971 the adult rate was 5.9 while the teenage rate was 16.9. In 1972 the rates were respectively 5.6 and 16.2; 1973, they were 4.9 and 14.5, respectively; 1974, the rates were 5.6 and 16.2; 1975, 8.5 and 19.9; and in 1976, the adult rate was 7.9 while the teenage rate was 19.0.

MINIMUM WAGE AND CRIME

Concern has been raised that one of the unforeseen consequences of increases in the minimum wage may be its affect on crime. Whenever there is a cutback in jobs in the private sector, the teenager, particularly the black one, is first to be laid off. With increases in unemployment, there are jumps in the crime rate; however, the crime rate among these teenagers is much more alarming. In 1973, unemployment among white teenagers was 12.6 percent while among black teenagers it was 30.3 percent. In that year the murder and non-negligent manslaughter arrest rate for those under 18 and in cities over 2,500 in population was 30.6 for white and 67.7 for blacks. The rates for robbery in the same year were respectively 28.4 percent and 70.4 percent. (Source: U.S. Department of Justice, Federal Bureau of Investigation, "Uniform Crime Reports for the United States, 1973," September 1974, pp. 142-144.)

The crime categories for 1975 show the same pattern. Accordingly the unemployment rate among white teenagers was 17.9 while black teenagers showed a 36.8 percent unemployment rate. In the "Uniform Crime Reports" issued by the FBI on August 25, 1976 for the year 1975, the murder and non-negligent manslaughter arrest rate for those under 18 and in cities was 35.9 for whites and 63.0 for blacks. For rape the rates were 39.7 percent and 57.6 percent, and the robbery rates were respectively 32.2 and 65.9 percent.

When the minimum wage goes up, the unskilled, the poor and the minorities are frequently the first ones to be removed from the working force. With time on their hands and nothing to do, restlessness soon breeds crime. Black leaders such as Rev. Jesse Jackson of PUSH to Bayard Rustin of the A. Phillip Randolph Institute in New York have voiced their concern that unless these black male teenagers get jobs, then the urban "ghettoes" will be the sites of "long, hot summers." Dr. Milton Friedman, Nobel Prize winner in economics, has said that minimum wage is "the most anti-Negro law on our statute books -- in its effect, not its intent."

David A. Williams
Policy Analyst -- Economics/Taxation