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SUCCESSFUL WELFARE REFORM REQUIRES STATE FLEXIBILITY ON THE MINIMUM WAGE

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Welfare reform, which has dramatically reduced the number of people receiving public assistance, has altered the debate over the national entry-level minimum wage.

The states already face an enormous challenge in increasing the workforce participation rate of their families on welfare. Their challenges will become even more daunting as federal workforce participation requirements increase and the welfare caseload shrinks to Americans with the least job-related skills. As recent economic research by Kevin Lang of Boston University and David Neumark of Michigan State University demonstrates, higher mandated wages reduce employment opportunities for the least skilled and cause shifts in the profile of those who get hired as employers favor more highly skilled applicants. And as entry-level unskilled job opportunities disappear, welfare recipients have a more difficult time finding work. To move forward with welfare reform, state officials should have the flexibility to determine the appropriate entry-level wage level for their states without a burdensome federal mandate that restricts their ability to help the poor.

Should Congress decide to consider another increase in the federally mandated minimum wage, it would do so in a completely different policy environment. The enormous flexibility that federal welfare reform gave the states in finding innovative ways to move recipients off the rolls and into work proved that the states understand what their welfare populations need. Congress should adopt a similar perspective with regard to federal mandates on entry-level wages.

UNIQUE CHALLENGES FACING THE STATES

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The states confront unique demographic and geographic challenges in helping welfare recipients enter the workforce. In 1998, all states met the overall federal workforce participation rates required by law, but only 28 met the requirement for two-parent families. States that do not meet the federal workforce participation requirements are subject to a penalty of 5 percent of their annual federal welfare block grant. Thus, they will stand to lose tens of millions of dollars if they do not meet the increasing requirements because a higher minimum rate makes it difficult to find entry-level jobs. A federally mandated, across-the-board increase in the minimum wage would exacerbate the difficulties they face in helping those who need jobs the most.

Even the U.S. Department of Labor recognizes the challenges for the states. Raymond Bramucci, Assistant Secretary for Employment and Training, told Congress on September 9, 1999, that "While we are encouraged by the early successes of welfare reform, the hardest job lies ahead. Those who remain on the rolls are most at risk of long-term dependency, unemployment, marginal employment, and low wages." Americans who lack the skills to get a job at $5.15 per hour today probably will not have acquired those skills to get a job at $5.65 per hour in January just because Congress raises the entry-level wage requirement.

DIFFERENCES AMONG THE STATES

Instead of building on what has worked (state flexibility), the Clinton Administration wants to reauthorize a $1.5 billion federal welfare-to-work program in order to counteract the impact of a proposed increase in the minimum wage. Yet a one-size-fits-all federal minimum wage would undermine state efforts to move Americans from welfare to work. If there is a minimum wage, it should at least reflect the significant differences in costs of living and general wage levels that exist among the states and even within states. Significantly, the federal government officially recognizes such regional differences in costs of living and general wage rates in paying its own employees. A national minimum wage makes as much sense as requiring Washington to pay federal workers the same wage for an entry-level job in New York City as it does in Fargo, North Dakota, where the cost of living is much lower.

Economic conditions vary widely among the states. In July 1999, according to the Bureau of Labor Statistics, Indiana and Nebraska had the lowest unemployment rate (2.4 percent), while West Virginia had the highest (6.1 percent). Employment growth from July 1998 was strongest in Nevada (4.5 percent), while Mississippi lost employment (-0.1 percent).

With such wide differences in employment opportunities, governors and state legislators are in a better position than are Members of Congress and the Administration to determine the appropriate entry-level wage levels for their own areas. State legislators understand the living and working conditions in their districts and how a minimum wage rate change would affect economic conditions, job opportunities, and welfare reform for their constituents. The experience of the states in successfully moving people from welfare to work thus far will complement this knowledge well—if the federal government does not tie their hands.

CONCLUSION

Congress wisely gave the states direct responsibility for bringing welfare recipients into the workforce. To build on that successful approach, it should also give the states the flexibility they need to adapt their own minimum wage policies to local economic, demographic, and development needs. Instead of raising the federal minimum wage and undermining welfare reform, Congress should promote the states' ability to increase opportunities in their own labor markets in a way that matches their responsibility to move Americans off the welfare rolls.

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