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Why Congress Should Consider Alternatives to Raising the Minimum Wage

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President Bill Clinton and some Members of Congress propose raising the minimum wage from \$5.15 to \$6.15 per hour—an increase of nearly 20 percent over the rate established on September 1, 1997. This is equivalent to a 20 percent tax increase on entry-level jobs, totaling as much as \$16.3 billion over the next five years. In a strong economy with a tight labor market, this may seem a harmless way to boost incomes. But in the next economic downturn, this extra cost of living could mean pink slips for many of those same Americans a rise in the minimum wage is intended to help.

Fortunately, thanks to the federal tax surplus, there is a better way for Congress to help lower-income and less-skilled Americans join the move up the economic ladder and address some of their most pressing needs—such as gaining access to health care, boosting savings, and reducing penalties against working women. Policies can be adopted that could 1) promote job growth by reducing the cost of hiring workers and 2) raise family incomes, savings, and well-being by taking away less of workers' hard-earned money.

Who the Minimum Wage Hurts. Economic analyses consistently show that most of the benefits from mandated higher entry-level wages do not go to low-income Americans. Indeed:

- Most of the benefits would go to families that already earn twice the poverty level (or \$33,626 for a family of four). In 1997, nearly 60 percent of poor Americans over age 15 did not work and thus would not be helped by an increase. Only 23 percent of today's working poor would benefit from a \$1.00 per hour increase of the minimum wage.
- Welfare recipients would have a harder time moving from welfare to work. Those still on the rolls typically have the least job-related skills. Mandating higher entry-level wages would tend to price them out of the job market.
- A recent survey by the Jerome Levy Economics Institute shows that raising the minimum wage to \$6.00 per hour would cause more than 20 percent of small business owners to reconsider their employment decisions.

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A Better Way to Boost Low Incomes. There are better options than increasing the minimum wage to give low-income Americans a greater opportunity to achieve a prosperous and secure future.

These alternatives would not only allow working families to keep more money in their pocket, but also address many of the unjust obstacles they now face. Specifically, Congress could:

- **Repeal the marriage penalty.** The recently passed Taxpayer Refund and Relief Act of 1999 (H.R. 2488) would repeal the marriage penalty. Families with two married earners will benefit from the elimination of the penalty, which imposes a higher marginal tax rate on the lower-earning spouse. Besides unfairly penalizing many working women, this penalty tends to force many lower-earning spouses out of the workforce. Eliminating the marriage penalty would benefit nearly three-quarters of a million families without a low-wage spouse.

- **Provide a refundable health-care tax credit to assist the uninsured.** Over 43 million Americans lack health insurance at some point during the year. Approximately one-half of the working poor are uninsured. Many of the uninsured are in families with an adult working full time and year round who either cannot afford coverage or lost coverage that was provided through their employer. A refundable tax credit will provide help to many of the uninsured as well as families who struggle to pay for insurance without help from Uncle Sam. It will also make it easier for welfare recipients to take a job.

- **Enhance the ability to save for retirement and education.** Low-income workers face a bleak future because they can save little or nothing for retirement or for their children's education. Some provisions of H.R. 2488 would make it easier for workers at all income levels to save for the future. For example, Congress could expand the availability and size of contributions to individual retirement accounts and the scope of educational savings accounts to end the tax penalties families face in saving to meet the costs of college or school.

- **Reform retirement taxes with personal retirement accounts.** Bipartisan approaches have been introduced to help workers save for retirement. For instance, H.R. 1793, by Representatives Jim Kolbe (R-AZ) and Charles Stenholm (D-TX), would enable Americans to put a portion of their current Social Security retirement payroll taxes into individually owned, privately managed personal retirement accounts.

- **Increase savings opportunities for employees of small businesses.** The Comprehensive Retirement Security and Pension Reform Act of 1999 (H.R. 1102), introduced by Representative Rob Portman (R-OH), would cut the red tape that hamstrings small employers who want to establish pension plans for their workers. This proposal would encourage the use of automatic contribution arrangements, result in higher participation by low- and middle-income workers, and address the portability needs of an increasingly mobile workforce.

- **Repeal the Federal Unemployment Tax Act (FUTA) surtax.** The third largest tax increase in the 1997 tax bill was the extension, through 2007, of the FUTA surtax, which was scheduled to expire at the end of 1998. Ending the surtax, as Senator Wayne Allard (R-CO) proposed in S. 103, would allow workers and employers to keep $8.3 billion more of their money over the next five years. This would end the unnecessary overtaxation of work and strengthen state economies by sending millions back to the states.

Raising the minimum wage would hurt those it is intended to help—the poor and the working poor. It would make it more difficult for unskilled Americans to move from welfare to work, and it would discourage employers from expanding. Moreover, it would do nothing to address the many problems facing most low-paid working families. A better path for Congress would be to enact tax policies that promote job growth and allow hard-working, low-income Americans to keep more of their earnings to save, invest, or enjoy a better quality of life.

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