

## GOVERNMENT ECONOMIC POLICY ASSESSMENT: THE LABOR MARKET

### What! Another Minimum Wage Study?

By MARY ECCLES AND RICHARD B. FREEMAN\*

The minimum wage has been around for decades. It is always nice to have study commissions, but we have commissions running out of our ears in this government. We have had studies by private organizations, by labor, by Government, by the Chamber of Commerce. I cannot see anything that this Commission is going to be able to do that private groups or labor unions cannot do.

[Former Rep. Robert Baumann (R, Md.)]

Vote on establishing the Minimum Wage Study Commission:

Democrats	233 yes;	45 no
Republicans	68 yes;	73 no
Total	301 yes;	118 no

During congressional consideration of amendments to the Fair Labor Standards Act in 1977, there was considerable uncertainty and political division over two potentially important proposed changes in the minimum wage law: indexing the wage to inflation, and providing for a youth differential. After some debate the House voted to establish a Minimum Wage Study Commission (MWSC), which it charged with investigating a dozen topics, including the effects of increasing the minimum on inflation, employment and unemployment; the ability of the minimum wage to ameliorate poverty; and the economic consequences of proposals for automatic indexing of the minimum wage and for setting a special subminimum rate for young workers.

Over a three-year period, an eight-member Commission headed initially by Gerald Feder and through most of its life by former Rep. James O'Hara (D, Mich.) funded a large

body of economic research on minimum wage issues, at a cost of \$17 million. Altogether, the Commission's contracts involved over ninety researchers, consultants, and discussants (including one of us). There were also several studies carried out by the Commission's own staff economists and two surveys of employers conducted by government agencies.

On May 24, 1981, the Commission issued a 250-page report summarizing its findings and setting forth conclusions and policy recommendations. Six additional volumes containing research papers were published later in the year.

Because the Commission was established by a Democratic Congress, with commissioners selected by Democratic cabinet officers, Republicans consistently voiced doubts about the potential impartiality of the proposed study. Not coincidentally, the American Enterprise Institute (AEI), a conservative think tank, shortly thereafter initiated its own major study of the minimum wage.

To what extent has the Minimum Wage Study Commission's work been helpful in policy debate? Did the research funded by the liberal commission yield results different from that funded by the conservative AEI? Overall, was the Commission's product worth three years of study and \$17 million? What can be learned from the Commission experience about the value of study commissions to those outside the research community?

To answer these questions we have reviewed the seven volume *Report of the Minimum Wage Study Commission*, and a series of other AEI studies on the minimum; and have interviewed members and staff of the House and Senate Labor Committees which have jurisdiction over the Fair Labor Standards Act, and thus tend to be the most important congressional consumers of research on the minimum wage.

\*Joint Economic Committee; Harvard University and National Bureau of Economic Research, respectively.

## I. The Commission Research

Table 1 presents in capsule form our summary of the research by the MWSC and AEI organized according to the following topics: demographic profile of minimum wage workers and compliance with the Fair Labor Standards Act; overall employment effects; employment effects on youth and of the youth subminimum; income distribution; macroeconomic effects on real wages and inflation; nonwage job effects.

Because the Commission did not undertake studies of foreign experiences, the political issues involved in support of the minimum wage, or the pathological effects of teenage unemployment on crime, we have omitted the AEI studies on those subjects from the table.

Our reading of the results of the research is that there is no discernible liberal MWSC or conservative AEI bias to the studies: the professional economists selected by the two groups produced results generally consistent with each other, and with previous findings on the minimum. If one did not know which study had been funded by which group, one could not guess from the results. In several cases, the MWSC work yielded results more unfavorable to the minimum wage than the AEI work, in other cases, the reverse is true. Persons predisposed against the minimum can read the MWSC research studies and the staff summary of the research without worrying about distortions due to political bias by the MWSC; conversely, persons predisposed for the minimum can read the AEI-sponsored research without worrying about distortions due to political bias by the AEI.

On the issue of the disemployment effects of the minimum, the vast bulk of the research studies funded by the two groups show modest/moderate impacts consistent with the professional consensus. With respect to the youth subminimum, which tends to be favored by conservatives, the AEI study noted important administrative problems while the MWSC studies can hardly be termed as negative. On the issue of inflation, the conclusion of both sets of studies was that the minimum does not have sizeable

impacts on inflation. Turning to income distribution effects of the minimum, a similar conclusion seems warranted, with both MWSC and AEI showing only slight increases or decreases in inequality as a result of the minimum.

Overall, we find that the MWSC and AEI studies fall well within the general findings of the literature that the minimum wage has only modest effects on the economy as a whole. On net, neither the MWSC nor the AEI studies yielded results that will raise the eyebrows of the research community.

## II. The Commission Recommendations

Volume I of the Commission report gives the recommendations of the Commission. While the central chapters of the final report deal with the effects on employment, inflation, and poverty, nearly a third of the discussion—and most of the specific policy recommendations—concern relatively narrow issues of exemptions for particular industries and enforcement matters. Only two of the Commission's recommendations address major policy questions. By a vote of 6 to 1 with one present, the Commission rejected the youth differential; by a vote of 5 to 2 with one not voting, it advocated automatic indexing of the minimum wage to adjust for inflation. By a vote of 5 to 1, with one voting present, and one not voting, the Commission voted down a proposal to permit local experimentation with a lower minimum for youth. With respect to other policy issues, the Commission called for restrictions in the current differential wage for full-time students; increases in the salary test for exempting certain professionals from overtime requirements; and the repeal of a large number of narrowly drawn exemptions to the Fair Labor Standards Act.

Both the positions and the general tone of the report express favorable attitudes toward the minimum wage, prompting an angry dissent from one member of the Commission. Commissioner S. Warne Robinson attacked the final report as blatantly biased toward labor unions and "an undistinguished piece of work" that did not adequately use the

TABLE 1—COMPARISON OF MINIMUM WAGE STUDIES: MINIMUM WAGE STUDY COMMISSION VS. AMERICAN ENTERPRISE INSTITUTE

### 1. Demographic Profiles and Compliance

#### A. MWSC

##### *Gilroy*

48% of all minimum wage workers are 16–24-years old, 37% are women 25 years and over, relatively large proportions of minimum wage workers in groups of: teenagers 16–17 (62%), 18–19 (33%), workers over 65 (39%), women (18%), blacks (18%), students (56%), part-time workers (36%), and poverty families (43%); only 9% of adults 20–64.

##### *Sellekuerts & Welch*

In 1973–80, found noncompliance consistently higher in low-wage sectors, and in the South, among females, nonwhites and teenagers than in complementary groups. In 1979 violation survey non-South's rate exceeds South's; overtime violations most prevalent. In 1978 CPS sample, overtime provisions violated at least in part 73% of the time.

#### B. AEI

##### *Kneisser*

Using CPS, finds over 60% of all low-wage workers are female; under 40% are teenagers, 30% are in families below the poverty level, tendency to live in the South of Great Plains regions.

##### *Fleisher*

D.O.L. retail trade surveys in 1962, 1965–66 shows over 90% compliance for U.S., lower rates in South, from 71% in 1962 to 87% in 1966 (in eligible workers covered).

### 2. Employment Effects—In General

#### A. MWSC

##### *Abowd & Killingsworth*

Under an *ad hoc* model a 2% increase leads to a .2 to 2.4% drop in teenage employment, a .2% rise to a .8% drop for adults. Under a structural model, a 2% increase leads to a .5 to 1% drop for teenagers, a negligible drop for adults.

##### *Brown, Gilroy, Kohen*

Survey of low-wage sector effects find little conclusive evidence of adverse employment effects.

#### B. AEI

##### *Wessels*

Minimum wage significantly increases labor-force participation of young adult females and males over 65, significantly decreases labor participation for young males, all with relatively small elasticities.

##### *Krumm*

Significant disemployment effects in all localities on lowest-skill workers as they are replaced by medium-skilled, new labor market entrants.

##### *Fleisher*

In retail trade in the 1960's, given a labor cost rise of 5%, labor demand dropped 5%; expansion of employment in department stores relative to rest of retail trade.

### 3. Employment Effects for Youths and Youth Subminimum

#### A. MWSC

##### *Meyer & Wise*

Without minimum wage, employment of nonstudent young men would be up 6% at least, average youth wage lower with the minimum.

##### *Brown, Gilroy, Kohen*

Survey of youth employment studies shows reasonably consistent time-series results that 10% minimum wage increase causes a 1 to 3% reduction in employment for 16–19-years olds, less consistency for 20–24-year olds & subgroups; their runs show a .5 to 1.5% drop.

##### *Hamermsch*

In private nonfarm sector, a 10% minimum wage increase leads to a 1.2% drop overall; higher in manufacturing, lower in services and retail trade. In private nonfarm sector, a 10% minimum wage increase leads to a 1.2% drop overall; higher in manufacturing, lower in services and retail trade. Estimates that a 25% youth differential would increase employment by about 3%.

#### B. AEI

##### *Cunningham*

For whites, employment is reduced, part-time work discouraged, and school attendance reduced, nonrobust results for blacks.

##### *Institute for Social Research*

1980 survey of low-wage establishments finds almost half of near-minimum wage workers under 20, the majority white though higher proportion of nonwhite workers in low-wage work than overall, higher proportion in South.

##### *Ehrenberg & Schumann*

Considerable noncompliance with overtime pay provisions; overtime pay yields greater benefits to middle and upper-income families than to lower-income families; increases in overtime differential will create modest number of jobs.

##### *Bell*

30% of low-wage workers are not household heads; concentration in families above the poverty level.

##### *Ehrenberg & Schumann*

Same basic conclusions as Ehrenberg and Schumann above.

##### *Madden & Cooper*

No statistically significant results as to interstate distribution of sales or employment in wholesale and retail trade.

##### *Heckman & Sedlockek*

Using South Carolina worker data, a 20% minimum wage increase makes over 80% of S.C. workers worse off, either through disemployment or lower wages.

##### *Trapani & Moroney*

For seasonal cotton farm workers in late 1960's, 63% of large drops in employment attributed to extended minimum wage coverage.

##### *Gardner*

For farm workers, a rise of 5% in mean hourly wage leads to a minimum 5% reduction in employment.

##### *Gordon*

No significant effects on private household worker employment.

##### *Brown*

Size of effects of youth differential on teenage and especially adult employment uncertain; problems with restricted differential.

##### *Pettengill*

Eliminating minimum for youths would increase employment among youth, indeterminate impact on nonyouth low-wage workers.

##### *Freeman, Gray, Ichniowski*

Student subminimum has led to increase in student person hours worked by perhaps 17% at a cost of perhaps 1% of employment of full-time nonstudent worker hours.

##### *Ragan*

Legal minimum raises wages in youth intensive sectors; some evidence that manpower programs have raised employment, that minimum reduces employment for some teenage groups.

TABLE I—Continued

*Al-Salam, Qvester & Welch*

Expansion of coverage of minimum wages has reduced proportion employed by 0.4 and created a gap between black and white male teenagers of roughly 0.04 as well; cohort size is important determinant of proportion employed.

*Mattila*

For 14–19-year olds, significant results on increase in school enrollments, roughly equal to magnitude of decrease in nonstudent labor force.

*Cotterman*

Study of 18–19-year-old males gives insignificant results for disemployment, except for significant in retail trade (\$.25 increase leads to 25% drop in black employment, 16% in white); interindustry shifts occur, with high-skilled teens; employment chances improved.

## 4. Income Distribution

## A. MWSC

*Behrman, Taubman & Sickles*

In checking proportions falling below the poverty line, inconclusive results by race; females appear to do slightly better than males; varied results for other age-sex schooling groups.

*Kohen & Gilroy*

Found no strong correlation between individual earnings and family income, and therefore only small “positive” effects on income distribution. Even distribution across income levels of minimum wage workers.

## B. AEI

*Parsons*

Using *NLS*, found small wage gains for low-wage adult females, offset by employment reductions; amount to less than \$150 per year.

## 5. Macroeconomics Aspects

## A. MWSC

*Pettengill*

1% minimum wage increase leads to a .3 to 1.3% of work force forced out of labor market; average wage rise of 1 to 2%.

*Boschen & Grossman*

Increases in minimum wage depress current employment in some industries, no effect on aggregate employment or average wage rate; effect of indexation uncertain.

*Sellekaerts*

10% minimum wage increase causes a rise of .05% in unemployment rate and .76% rise in average wages; initial impact of indexation uncertain; later effect beneficial (e.g., increased efficiency).

## B. AEI

*McCulloch*

Direct effect on inflation negligible, even if minimum wage is indexed.

## 6. Nonwage Job Effects (On the Job Training, etc.)

## A. MWSC

*Lazear & Miller*

Using *NLS*, no obvious retardation effects of the minimum wage on wage growth.

## B. AEI

*Fleisher*

Using *NLS*, while wage rates are higher in covered than uncovered sectors, adding the wage advantage of working to reported wages causes wages in uncovered sector to exceed those in covered sector for students and nonstudents.

*Wessels*

Minimum wages have slight negative or neutral effects on labor participation, slight effects on priors, and a positive or neutral effect on quit rates.

*Fleisher*

In retail trade, significant negative impact on employment for young males, inconclusive results for females.

*Cotterill*

Review suggests significant problems of exclusion of other low age groups by differential to youth, especially in retail and service areas.

*Johnson & Browning*

Through simulations, found even distribution of benefits over all income levels and disemployment effects lowering the benefits, generally small distributional effects, within income classes inequity increases (80% of low-income households lose because of higher prices, 10% of high-income households gain income).

*Datcher & Loury*

Using *CPS* data, 20% increase in minimum wage causes white family earnings to rise over 1%, black earnings .2%; higher-income families gain absolutely none.

*McCulloch*

Using Gini index, net negative effect on equality.

*Farber*

10% change in minimum leads to less than .5% change in union wage.

*Cox & Oaxaca*

10% rise leads to a .1% rise in aggregate real wage bill; an increase in high-wage employment, decrease in low-wage and overall.

*Wolff & Nadiri*

Raising minimum wage has positive effect on output due to income distribution, negative on employment, and raises prices more rapidly as minimum rises.

*Hashimoto*

Using *NLS*, some reduction in On-the-Job Training (*OJT*) (2.5%) found for young white males; inconclusive results for blacks.

*Leighton & Mincer*

Minimum wages discourage *OJT* especially at lower educations levels; mixed results on job turnover.

*Source:* Papers reviewed are contained either in Volumes II–VII of the *Report of the Minimum Wage Study Commission* (MWSC), published in July, 1981; in the American Enterprise Institute's (AEI) conference volume, *The Economics of Legal Minimum Wages* (Simon Rottenberg, ed., published 1981); *Poverty and the Minimum Wage*, by Donald Parsons; *Minimum Wage Regulation in Retail Trade*, by Belton Fleisher; *Minimum Wages and On-the-Job Training*, by Masanori Hashimoto; *Minimum Wages, Fringe Benefits and Working Conditions*, by Walter Wessels; and *The Impact of the Minimum Wage on Regional Labor Markets*, by Ronald Krumm. Studies are referred to by author. *NLS* refers to the National Longitudinal Survey (“Parnes Survey”) funded by the Department of Labor.

research findings. Indeed, the latter criticism seems valid; the conclusions do indeed seem unconnected to the research results. Rarely, if at all, are specific research studies referenced in the Commission recommendations: for instance, the recommendation for restricting the current student subminimum has no link to the MWSC-funded research on the operation of the subminimum.

In short, the Commission came in with a final report to which one commissioner lodged serious objections, from which one often voted just present and another often did not vote, and which did not appear to rely heavily on funded research.

### III. Policymakers' Response to the Report

The MWSC was instituted by a Democratic Congress under a Democratic administration; in the three intervening years, the political climate changed, putting Republicans in control of the White House and Senate. These changes are important in understanding the reaction to the Commission report.

When the MWSC final report and recommendations were released on May 24, 1981, they did not attract much attention. Press coverage was minimal, consisting of routine treatment by the wire services and a few articles in specialized publications like the *Daily Labor Report* (Bureau of National Affairs). There were no briefings on the findings for press or Capitol Hill, presumably because of the obvious absence of political interest in minimum wages at the time by a Congress preoccupied with the tax and budget proposals of the Reagan Administration.

Anticipating that most congressional offices would simply file the report away until legislative action appeared more imminent, we interviewed those with the strongest reason to follow the work of the Commission: members and staff of the Senate and House Labor Committees. The Committee members and staff we interviewed generally knew the report existed, but were far from equally knowledgeable about its contents. Some committee staff had read or skimmed the material; others planned to look it over dur-

ing a slow week. Committee members typically had neither read nor glanced at nor seen a staff summary of the Commission's work. Rep. Millicent Fenwick (R, N.J.) said that she hadn't heard of the Commission or its product "until this minute." In only a few of the interviews did the members indicate much awareness of specific findings or recommendations.

Given the absence of the minimum wage from this year's legislative agenda, the "back-burner" treatment of the report by Congress does not preclude greater attention to the work in the future. When some action on the minimum wage is anticipated, the Labor Committees will start the hearings process. Democratic aides, at least, say the Commission's studies will be useful as background and that individual researchers may be sought out as witnesses.

Among those familiar with the Commission report, evaluations split along partisan lines. Republicans found it biased—an inevitability given the makeup of the Commission. "It just gave a recitation of organized labor's demands on the minimum wage," said Sen. Orrin Hatch (R, Utah), Chairman of the Senate Labor Committee. Republicans also agreed with Robinson's indictment that the Commission's conclusions ignored the research findings. While the report and its recommendations could be easily dismissed, some suggested the underlying studies might still be worth looking at. Democrats conceded the Commission's slant toward labor but strongly defended the professional quality of the investigation. "The research isn't tainted...or even partisan," said an aide to the House Education and Labor Committee, "Most of the academics doing the studies were relatively conservative."

During the interviews, staff and members tended to interpret various Commission findings according to their predispositions on the issues. Those opposed to a subminimum wage for youth, for example, considered the reported effects on employment small and emphasized the possibility that young workers would be substituted for low-paid adults—a result the Commission said could not be ruled out. Supporters of a subminimum viewed the employment effects as apprecia-

ble and took note of the lack of evidence on the issue of substitution. "I favor a youth subminimum, but if a valid study shows significant firing of adults I could change my mind," said Rep. John Erlenborn (R, Ill.). Rep. Paul Simon (D, Ill.), noting that an earlier study had caused him to change positions and support a subminimum, said he'd be open-minded about anything new from the Commission. "But we do tend to go through these things to look for information that agrees with our positions and buttresses our prejudices," he said.

The existence of the Minimum Wage Study Commission may have influenced the policies of the Reagan Administration on the question of the youth differential, at least indirectly. Surprising many Republican supporters of the subminimum, the Administration did not take a position on the issue in the spring of 1981: Secretary of Labor Raymond J. Donovan said that the department was waiting to see the Study Commission's report before making recommendations on the subminimum.

It is possible, however, that the reference to the report was just a convenient excuse. Business interest in the idea of a subminimum had begun to wane. A fight over establishing a subminimum for young workers or any other group would open the Fair Labor Standards Act to all kinds of amendments, including another series of increases in the minimum wage. In addition, some pivotal groups, like the fast-food industry, had apparently expressed doubts about the feasibility of a subminimum, since it would violate the principle of equal pay for equal work.

On the other hand, the idea had some natural appeal to a Republican Administration. It provided an "incentive" to employers without costing the government any money. Perhaps if the Commission's research had found that lowering the minimum produced large numbers of new jobs for youth, the Administration might have decided to commit itself.

#### IV. Evaluation

Overall, the Commission's report appears to have had little or no policy impact. While

in a different political climate, the recommendation for indexing the minimum wage might have been given serious congressional attention, the reception of the report suggests it would have been taken as a partisan document under any circumstances.

Returning to our original question, was the Commission's product worth three years of study and \$17 million? Our answer is no.

To begin with, the research did not generate anything strikingly new in the minimum wage literature. On most questions, the findings corroborate those of similar studies done prior to 1977. If, instead of embarking on a broad research plan that duplicated a lot of existing work, the Commission had surveyed the literature and identified the gaps, and then initiated a limited number of studies, it might have performed a more useful function. For a fraction of the cost, it could then have funded a few projects that would clearly have added to the knowledge base. In particular, with respect to the issue of the youth subminimum, much might have been learned from a three-year experiment of the measure in several cities.

#### V. Lessons on the Value of Study Commissions

"I'm against these studies. No one ever looks at them—not even the recommendations," Rep. Fenwick (R, N.J.).

Does our conclusion about the *Report of the Minimum Wage Study Commission* imply that such commissions invariably have little impact on policymakers? Our answer and that of most of the members and staff we interviewed is no.

As a counterexample, several of those we interviewed referred to the National Commission on State Workmen's Compensation Laws (set up in 1971) as a commission whose report had a significant impact. Chaired by John Burton, the Commission was given high marks for professionalism; for developing model legislation that was useful to state workers' compensation programs; and for achieving agreement on key policy recommendations. "When you have unanimity, it's a sign that a study has led them (the Commissioners) someplace," a Senate aide

explained. Another, producing his dog-eared copy, said he still referred to the nearly ten-year-old report when a workers' compensation issue arose.

More generally, members and staff expressed preferences for narrowly focused reports with clear policy orientations. "I like to see specific recommendations—not just a lot of information," said Rep. Simon. Reports that analyze the effectiveness of programs are especially useful. While positive evaluations are obviously good ammunition in a debate, aides explained, even negative findings can help members legislate changes in programs that avoid the pitfalls. Aides also indicated interest in empirical work, as long as it wasn't too technical. "We see a lot of studies by the General Accounting Office or by various interest groups that just aren't very solid," said one. "They're based on a few cases, and have no statistical validity."

To have a policy impact, in our judgment, a study commission must have: involvement

by recognized experts and balancing of ideological interests, to minimize doubts about the credibility of the investigation; strong policy orientation in final reports with results based on the research studies funded by the commission; consensus, if not unanimity, in conclusions.

As our comparison of MWSC and AEI-funded research on the minimum wage indicates, initial conservative concerns about "bias" in the research funded by MWSC proved wrong. While not exciting, the MWSC research generally produced credible estimates of the effects of the minimum wage on the economy. Lack of connection between the research findings and the Commission recommendations, lack of unanimity in the Commission recommendations, and the changed political climate, however, make this a case in which the research results have had little impact on policy and, in our view, are unlikely to have much impact on policy in the future.