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ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING

AGENDA
8:30 a.m.
Roosevelt Room

May 10, 1976

PRINCIPALS ONLY

1. Administration Minimum Wage Policy Labor



May 7, 1976

ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE

Proposed Agenda

Monday, May 10, 1976 (Principals Only)

1. Administration Minimum Wage Policy

Labor

Tuesday, May 11, 1976

No EPB Executive Committee meeting

Wednesday, May 12, 1976

No EPB Executive Committee meeting

Thursday, May 13, 1976

No EPB Executive Committee meeting

Friday, May 14, 1976

No EPB Executive Committee meeting



U.S. DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY
WASHINGTON

DRAFT

May 6, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: W. J. USERY, JR.

Subject: Administration Minimum Wage Policy

The House Subcommittee on Labor presently plans to mark up a minimum wage bill in May. At that time the Administration will be pressed to take a position. Last October, Congressman Dent introduced H.R. 10130, which would increase the basic minimum wage (now \$2.30) to \$2.65 on July 1, 1976 and to \$3.00 on January 1, 1977. Thereafter, the bill would index the \$3.00 minimum wage upward twice yearly by percentage increases in the CPI plus a one percent add on at each adjustment. However, both Congressman Dent and the AFL-CIO are currently giving greater attention to a different proposal, which has not been introduced formally. This proposal would increase the minimum wage to \$2.65 on January 1, 1977 with annual increases thereafter so as to maintain the minimum, in dollars and cents, as a fixed percentage of gross average hourly earnings of non-agricultural workers. No specific percentage has been proposed at this point.

Proposals to increase the minimum, and especially proposals to index it, will be controversial. The minimum wage has always been an emotional issue for rank-and-file workers but the economics profession believes strongly that increases in the minimum wage decrease employment opportunities, especially for certain groups like the elderly, the handicapped, and youth. It will be almost impossible for the Administration to avoid taking a clear position on the issue.



OPTIONS

Option 1: Oppose any increase at the present time.

Those who are concerned about the employment impact of the minimum wage point out that a constant minimum would experience erosion over time with respect to average earnings and would thus have less and less impact. However, the minimum has been increased with some regularity since it was first enacted in 1938, and the Congress is not likely to allow it to remain constant for very long. It will be argued that the most recent increase to \$2.30 on January 1 of this year had been eaten up by inflation before it became effective (the CPI had increased 15.4% percent since the effective date of the 1974 amendments but the \$2.30 figure represents an increase of only 15% percent in the minimum wage since that time.) Opposing any increase is very likely to put us in the position of having to veto yet another bill with which the little person identifies yet which does not have any impact on Federal expenditures.

Option 2: Favor a legislated increase but oppose indexing.

This would permit the President to recognize the impact of inflation on the minimum wage while avoiding the relatively controversial step of endorsing indexation. However, a somewhat larger dollar and cents increase is likely if indexation is not adopted. Depending on the course of the economy over the next year or so a larger legislated increase might be more inflationary and have worse employment effects than indexed increases would have.

Option 3: Favor indexation.

This would permit the President to take the initiative on something which is likely to happen anyway. Historically, legislated increases have resulted in approximately the same level of minimum wage that indexing by hourly earnings would have, and substantially more than indexing by the CPI (Tab A). There is some risk of future legislated increases on top of the indexed minimum, although the mere fact of indexation would undercut political support for such increases. If the Administration adopted this option, it could either favor a particular approach to indexation or remain flexible and try to work something out with the committee.



Option 4: Favor indexing, but only in exchange for a link to the unemployment rate.

This option would recognize the need to increase the minimum in order to keep pace with increases in real earnings, but would also recognize that increases in the minimum wage may decrease employment opportunities. A formula would be developed which would slow the rate of increases in the minimum when the unemployment rate increased. A variety of formulas is possible.

Option 5: Favor indexing, but only in exchange for informal agreement that the Labor Department would undertake some experimentation and demonstration programs with respect to the effect of the minimum wage on employment levels of certain groups.

This option would permit the President to be visibly associated with the most popular minimum wage proposal presently on the Hill but would also ensure our ability to engage in a responsible program of experimentation within the present statutory framework without opposition from labor groups.

RECOMMENDATION

Option 5

I recommend that you favor an increase in the minimum wage. It is likely to be enacted, and you should not be in a position of opposing another bill which seems to help the little man--particularly one which has no direct budget impact. Further, I recommend that you generally favor the concept of indexation but emphasize that details are important and the relationship between the indexed method chosen and the dollar and cents base from which it started would determine your final position. Privately, you would indicate that this favorable position is conditional on modest administrative experimentation within the present statutory framework so as better to establish the relationship between the minimum wage and employment.



MINUTES OF THE
ECONOMIC POLICY BOARD
EXECUTIVE COMMITTEE MEETING
SPECIAL SESSION

May 5, 1976

Attendees: Messrs. Seidman, Greenspan, Lynn, Usery, Dixon
Cannon, Malkiel, O'Neill, Porter, Perritt,
Darman

1. Structural Unemployment and the Minimum Wage

The Executive Committee reviewed a series of memorandums prepared by the Council of Economic Advisors and the Departments of Labor and Commerce, distributed to the Executive Committee members last week, relating to structural unemployment, proposals to index the minimum wage and a minimum wage youth differential. The discussion focused on the nature of the unemployment problem, experience rating the unemployment system, a youth minimum wage differential, and proposals to index and/or increase the minimum wage.

Decision

The Executive Committee requested the Department of Labor to prepare a draft options paper on the minimum wage and proposals to index the minimum wage for further Executive Committee consideration and submission to the President.

