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THE WHITE HOUSE
WASHINGTON

June 21, 1976

ADMINISTRATIVELY CONFIDENTIAL

MEMORANDUM FOR: L. WILLIAM SEIDMAN
FROM: JAMES E. CONNOR *JEC*
SUBJECT: Administration Policy on Minimum
Wage Legislation

The President has reviewed your memorandum of June 15th on the above subject and has approved Option 2 -- Take no position on minimum wage legislation at this time.

Please follow-up with the appropriate action.

cc: Dick Cheney

THE WHITE HOUSE

WASHINGTON

June 15, 1976

MEMORANDUM FOR THE PRESIDENT

FROM: L. WILLIAM SEIDMAN *LWS*

SUBJECT: Administration Policy on Minimum Wage
Legislation

Last October, Congressman Dent introduced H.R. 10130 which would increase the basic minimum wage -- now \$2.30 an hour -- to \$2.65 an hour on July 1, 1976 and to \$3.00 an hour 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.

Currently, however, Congressman Dent and the AFL-CIO are giving greater attention to an informal proposal which would increase the minimum wage to \$2.65 an hour on January 1, 1977 with annual increases thereafter so as to maintain the minimum as a fixed percentage of gross average hourly earnings of non-agricultural workers. This method would "index" the minimum wage to average wages. A number of other wage indexing models have also been discussed informally.

Congressman Dent delayed action on minimum wage legislation during May so that the Administration could come forward with a "positive" proposal in June. "Positive" was not defined. There was no commitment to present a positive proposal, but if the Administration opposes any increase Congressman Dent may feel that an understanding was broken.

Proposals to increase the minimum wage, and especially proposals to index it, are controversial. The minimum wage has always been an emotional issue for rank-and-file workers. Generally, the business community reluctantly accepts periodic increases although they would prefer no increase.

Economic research suggests that increases in the minimum wage reduce youth employment. The CEA estimates that an increase to \$2.65 per hour would reduce teenage employment by about 225,000 (or 3 percent) compared to what it would be otherwise. The economics profession also believes that increases in the minimum wage significantly decrease employment for other low-productivity workers (e.g., the handicapped and the aged with little schooling) and those seeking part-time work.

The EPB Executive Committee has reviewed this issue and the advantages and disadvantages of indexing the minimum wage at length.

Proponents of indexation argue that adoption of an indexed minimum wage would reduce political support for periodic increases in order to adjust for inflation and to keep its relative position in the wage structure. They point out that the methods of indexation currently under serious consideration in the Congress would operate to provide increases in the minimum wage at approximately the same rate of periodic increases that have been legislated since 1938 when the minimum wage was first enacted.

Opponents of indexation note that, historically, Congress has demonstrated frequent interest in the minimum wage issue. They argue that even if the minimum wage were indexed, there is a strong possibility that many in the Congress would seek to legislate increases above the indexed minimum and/or seek to expand coverage to the 20 percent of the labor force not presently covered by minimum wage legislation.

Secretary Usery is scheduled to meet with Congressman Dent and Andrew Biemiller of the AFL-CIO on June 16 to sound them out on various approaches. He would like some general guidance from you before that meeting, but does not feel that it is necessary for the Administration to have settled on any specific proposal.

Options

The following options have been reviewed by the EPB Executive Committee.

Option 1: Oppose an increase in the minimum wage at the present time.

This option represents the most conservative approach and has support from those who feel that another increase in the minimum wage at this time would hamper the recovery by reducing unemployment opportunities and stimulating inflation. Arguments regarding whether an increase in the minimum wage because of recent inflation revolve around the choice of the time period. Proponents of an increase argue that there has been a 15.4 percent increase in the CPI compared to a 15.0 percent increase in the minimum wage from when the 1974 amendments became effective to January 1, 1976. But one could pick alternative base periods from which the minimum wage has increased at a considerably faster rate than the consumer price index.

Option 2: Take no position on minimum wage legislation at this time.

This approach would permit the Administration to "wait and see" and assess what develops in Congress before committing to a position. It is possible that those in Congress seeking to raise the minimum wage will find relatively little support for a major initiative this year. More likely, according to the Department of Labor, is the possibility of a full-fledged debate on the issue with a fair probability of the passage of legislation both increasing the minimum wage and indexing it to growth in average wages. Labor claims that while the Administration will come under increasing pressure to take a position, it probably will be two or three months before we must commit ourselves.

Option 3: Propose a study of the minimum wage including its effects on inflation and unemployment.

This approach would demonstrate concern about the need to address the problem of weighing the trade offs between increases in the minimum wage to adjust for inflation and the employment effects of such increases.

Option 4: Support a legislated increase in the minimum wage but oppose indexing.

This approach would permit you to recognize the erosion of the minimum wage due to inflation while avoiding the relatively controversial step of endorsing indexation. Congressional pressure for a larger legislated increase is likely if indexation is not also adopted.

The most frequent figure mentioned in discussions on raising the minimum wage is \$2.65 from the current \$2.30 -- a 15 percent increase. The "minimum" increase that could be offered for January, 1977 would be \$.15, raising the minimum wage to \$2.45. This would cover the expected 6 percent increase in consumer prices between January, 1976 and January, 1977.

The impact of such an increase on inflation and employment opportunities would depend on the size of the increase.

Option 5: Propose a modest increase in January 1977 and statutorily mandate a study to determine the best method for modifying the minimum wage in January 1978.

Such a study might result in a proposal for another simple increase, some method of indexation, a form of a two-tier minimum wage system, or some other alternative for dealing with future increases.

This approach would permit you to favor an increase in the minimum wage without committing yourself on the subject of indexation. It recognizes the complexity of designing a satisfactory indexation formula and provides a method whereby the issue would be addressed in roughly the same time frame as Congressman Dent's proposal.

While the indexing concept is relatively simple, previous experience with indexing in the case of social security has demonstrated the importance of correct technical design. A two stage approach would permit both the Administration and the Congress flexibility to monitor events, undertake further analysis on the appropriateness of indexing and the effect of various indexing methods, and to exercise judgment in early 1977 as to the best course of action in 1978.

Option 6: Support Indexation

This approach would be considered the most "positive" by those favoring an increase in the minimum wage. Historical comparisons show that after allowing for the irregular pattern of legislated increases, the minimum wage has, on average, followed the rate of increase for average wages. Specifically, the minimum wage has averaged 48 percent of average hourly earnings. Indexing the minimum wage to the historically observed increases in average hourly earnings would have resulted in a minimum wage very close to the current level, although there is nothing sacred in the historic ratio. Indexing to prices, such as the CPI, would have resulted in a much lower minimum wage level.

If you adopted this approach, alternative forms of indexation would be prepared in an options paper for your consideration.

Decision

Option 1 _____ Oppose an increase in the minimum wage at the present time.

Supported by: Treasury (See Tab A)

Option 2 *MC 4* Take no position on minimum wage legislation at this time.

Supported by: Labor,* Commerce, CEA, OMB, Seidman, Buchen, Cannon, Friedersdorf

Option 3 Propose a study of the minimum wage including its effects on inflation and unemployment.

Supported by: Marsh

Option 4 Support a legislated increase in the minimum wage but oppose indexing.

Option 5 Propose a modest increase in January 1977 and statutorily mandate a study to determine the best method for modifying the minimum wage in January 1978.

Commerce favors this option if Option 2 is not selected.

Option 6 Support indexation.

* Secretary Usery strongly believes that an increase in the minimum wage is in order and that a specific option (Either Option 4, 5 or 6) should be selected after we know more about the positions of key members of Congress and the labor movement.

A



THE SECRETARY OF THE TREASURY
WASHINGTON

JUN 15 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Administration Policy on Minimum Wage Legislation

Secretary Usery has sent an options paper to you concerning the minimum wage which includes possibilities to raise this wage either on an ad hoc basis or in an automatic fashion by indexing. I would urge you not to increase the wage now and to resist strongly any idea to index--a process of perpetuating, if not reinforcing, inflationary pressures.

- . There is no "positive" commitment on your part to raise the wage no matter what Congressman Dent or the AFL-CIO may expect. Bill Usery's public statements along these lines have clearly reflected his own views and not necessarily those of the Administration.
- . The economic consequences of raising the minimum wage are counter to the philosophic thrust of your economic policies and simply put another obstacle in the path of the well-balanced economic expansion underway. The overwhelming evidence of many economic studies (Option #3 of another study is really not at all necessary) point to the harmful effects of a higher minimum wage. It
 - raises cost of employment which ultimately result in higher prices to consumers;
 - puts some people out of work (for them the true minimum wage is zero) as their higher labor costs cannot be fully absorbed by the employer or consumer;
 - creates undesirable pockets of unemployment amongst those groups least able to incur such a cost, namely, the unskilled, the young, and minorities.
- . Any decision on changing the minimum wage should include the possibility of some generalized exemption for some groups (say the young) beyond the discretionary power now vested with the Secretary of Labor. This is one aspect of the topic that does deserve serious study.

I would urge you to adopt Option #1 which avoids any commitment to a higher minimum wage at this time.



William E. Simon