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## LEVY INSTITUTE SCHOLAR PROPOSES NEW PROCESS FOR ADJUSTING THE MINIMUM WAGE

ANNANDALE-ON-HUDSON, N.Y.--Raising the minimum wage is always a divisive political issue, with those in favor arguing that families cannot survive at current rates and opponents claiming that higher labor costs force businesses to shed workers. Oren Levin-Waldman, resident scholar at The Jerome Levy Economics Institute, proposes removing the issue from politics by indexing the minimum wage to the productivity of low-wage workers.

"Since the summer of 1997 there have been four bills before Congress proposing an increase in the minimum wage, as well as President Clinton's call for an increase in his 1998 State of the Union address, but no increase has yet been enacted," says Levin-Waldman in the Levy Institute's Public Policy Brief No. 42, *Automatic Adjustment of the Minimum Wage*. "In fact," he notes, "just this week the Senate rejected a proposed \$1-per-hour increase in the minimum wage." "Historically, by the time that Congress does act to raise the minimum wage, the political compromise is an increase that is too small to be of much benefit to workers, but large enough to concern businesses," he says.

Levin-Waldman proposes automatically adjusting the minimum wage in the same way that all wages adjust: via market forces. Previous plans for automatic adjustment have suggested linking the minimum wage to the Consumer Price Index (CPI), but Levin-Waldman notes that "the CPI overstates the rate of inflation and does not accurately reflect market-caused price increases" and that "an index that increases wages at a rate greater than the actual inflation rate will exacerbate inflationary pressures." Instead, Levin-Waldman proposes linking the minimum wage with gains in the productivity of low-wage workers. Since the lowest-wage sector (essentially the food service and retail sales industries) employs most of the minimum-wage workers, Levin-Waldman suggests using an index based on that sector's median hourly wage. Any increase in the median wage would then be applied to the statutory minimum wage. "The advantage to indexing the wage in this manner is that it will increase gradually, but regularly, over time" and, according to Levin-Waldman, should not be inflationary.

"Establishing such an automatic adjustment mechanism would create a public-private partnership in which government implements a new wage rate based on what is happening in the private sector," says Levin-Waldman. "Indexation has the added value of providing businesses with information about the size and timing of further increases. Automatic

adjustment would remove the issue from politics and ensure that those at the low end of the wage scale can earn a wage that maintains its value."

[Public Policy Brief No. 42, \*Automatic Adjustment of the Minimum Wage\*](#), 1998

(9/23/98)