

**TESTIMONY OF  
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U.S. DEPARTMENT OF LABOR  
BEFORE THE  
HEALTH, EDUCATION, LABOR AND PENSIONS COMMITTEE  
U.S. SENATE**

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Good morning. Chairman Harkin, Ranking Member Alexander, and Members of the Committee: it's an honor to appear before this committee as I did last April for my confirmation hearing. In nearly eight months as Secretary of Labor, I've benefitted greatly from the counsel of members of this panel. And I look forward to a strong and constructive partnership with you in the years ahead.

In his State of the Union address, President Obama laid out an agenda based on the principle of opportunity for all. What's always set America apart is the belief that our destinies shouldn't be pre-determined by the circumstances of our birth. Everyone, through hard work and personal responsibility, should have the chance to succeed and create a better life for themselves and their families.

To realize that vision, we have to continue to grow the economy and the availability of jobs with good wages – jobs in construction, in manufacturing, in energy and throughout the economy. We also need to provide training opportunities to empower our workers with the skills and credentials that enable them to get those jobs – that is, in fact, one of the linchpins of our work at the U.S. Department of Labor. It all has to start with a world-class education, beginning when a child is four years old. It includes access to affordable health care that is always there when you need it. And it includes the opportunity to build a nest egg and save for retirement.

This vision is embedded in the American social contract. It is consistent with the idea that we don't leave anyone behind. That, when times are tough, Americans don't say everyone is on their own to fend for themselves. We say that we're all in this together.

And at the heart of it all is the belief that hard work must pay off, that Americans deserve a wage they can live on. That is why President Obama believes we must raise the Federal minimum wage from the current level of \$7.25 to \$10.10 per hour. Many members of this Committee have been strong supporters of this increase; but none more so than Chairman Harkin, as the sponsor of S. 460 and a relentless champion for working families throughout nearly four decades of service in the House and the Senate.

Americans deserve a raise. Increasing the Federal minimum wage to \$10.10 would make a powerful difference in millions of lives. Based on tabulations from the Council of Economic Advisers (CEA), it would benefit 28 million workers, giving them a little bit more breathing room

and peace of mind. It would raise incomes for an estimated 12 million people now in poverty, lifting about 2 million of them out of poverty.

The Federal minimum wage has been frozen at \$7.25 an hour since 2009. Meanwhile, the price of almost everything a working family needs to live their lives is going up. A gallon of milk, a gallon of gas, a month's rent, a pair of children's shoes – of course, they all cost more than they did in 2009. In fact, the purchasing power of the minimum wage has been on a steady decline for many decades. It's worth about 20 percent less than it was when President Reagan took office. Adjusting for inflation, the minimum wage peaked in the 1960s at \$10.69 in today's dollars, 47 percent *more* than its current value.

That diminishing value is undermining the economic security of millions of families. It has contributed to deepening inequality and a lack of upward mobility throughout the country, because, despite the myth that's been propagated, minimum wage workers are not just teenagers looking to earn a little extra to supplement their allowances. In fact, according to CEA, 88 percent of those who would benefit from an increase to \$10.10 an hour are age 20 or over and more than 50 percent are women, many of whom have children.

Why do we expect her to take home less even though she's producing more? According to data from the Bureau of Labor Statistics (BLS), since 1979, worker productivity has increased more than 90 percent but real average hourly earnings of production and non-supervisory workers have barely budged – up only 1.3 percent.

I've visited with these hard-working Americans and heard their stories, heartbreaking stories about what it's like to live at or near the minimum wage: The wrenching decisions you have to make. The daily grind and struggle. The apprehension and anxiety. The exhaustion and sense of futility. But these are also people with immense pride, dignity and self-respect. They don't want a handout; they just want a fair day's pay for a fair day's work.

I met with one woman from Durham, North Carolina who, despite 16 years working in the fast food industry, can't even afford a place of her own. She's staying with her adult children and can barely afford the life-sustaining medicine she needs. "We work hard," she told me. "We just want to be treated fair. We want to help ourselves." She knows what it's like to go without. "It's a sad day in America," she said, when you can feed your kids but you can't eat yourself.

In Louisville, I talked with a woman named Honey Dozier who is trying to raise four children on the \$7.25 an hour she earns working concessions at a bowling alley. As she put it: "I feel like I have to choose either providing food and necessities for my family or health care, because I can't afford both this month." She also expressed sorrow at the fact that "when you work a low-paying job, you don't earn enough to be a good mother. I don't mind giving 100 percent to my employer, but I should also give 100 percent to my family, and a \$7.25 wage doesn't allow that."

Another man from New York talked about having his gas and electricity cut off for two months. He told me: “My mom recently got laid off...we had an eviction notice...and my mom took out a loan, which I don’t think she can pay back.”

One St. Louis man is trying hard to climb into the middle class but as he described it: “I’m working 70 hours a week...my day starts at 6am...I want to go to college, [but] I don’t have time [and] I can’t afford it.” He added: “I shouldn’t have to decide: am I going to pay the electric bill or do I pay the heat? I’m a thousand dollars behind in rent now...where is this money going to come from?” He has goals and ambition – we ought to ensure that he has the opportunity to make the most of his abilities and live out his dreams.

He also added that he has burn marks on his arm from working in a commercial kitchen. He can’t afford to take a day off from work, even when he has the flu. And this is someone who handles food for a living.

It’s startling to learn just how many of these workers are forced to go on food stamps and other forms of public assistance just to make ends meet. A recent study from the University of California-Berkeley concluded that workers in the fast food industry are relying on safety net programs to the tune of a staggering \$7 billion a year. A young fast food worker from Milwaukee understands the implications. All that money in public assistance, he explained, “could be used on something else to better the community,” if only businesses paid higher than poverty wages.

Not every low-wage worker is in the food services industry, however. From farmworkers to motion picture projectionists, there are people struggling at or near the minimum wage. If you work in ski patrol or in the gaming industry or in animal care, you stand to gain from an increase in the minimum wage. Even jobs we associate with a white-collar environment, like bank tellers, are struggling at the very bottom of the wage scale. According to an analysis by a group called the Committee for Better Banks, one-third of bank tellers are depending on government programs to get by -- \$105 million in food stamps, \$250 million through the Earned Income Tax Credit, and \$534 million in Medicaid and the Children’s Health Insurance Program each year.

I think we’re better than this. I don’t think a country as great as ours should pay people so little that they need help from the state just to survive. What that amounts to is billions of dollars in taxpayer subsidies for very profitable companies. The American people are filling the gap and stepping in for employers who refuse to pay a wage that their workers can survive on. A recent study from the Center for American Progress concluded that if the Harkin-Miller legislation becomes law, it would mean as many as 3.8 million fewer people enrolled in the Supplemental Nutrition Assistance Program (SNAP), thus reducing spending by nearly \$4.6 billion a year.

But it’s not just workers themselves who are making the case for a higher minimum wage. Contrary to the conventional wisdom, businesses of all sizes are increasingly embracing the idea too. I’ve met with them as well, and it’s clear that they want to do right by their employees, that they want to take the high road, that they aren’t interested in running a race to the bottom.

In fact, just last week Small Business Majority released the findings of a new poll demonstrating that 57 percent of entrepreneurs support raising the minimum wage to \$10.10 per hour.

The morning after the State of the Union, I joined the President on a visit to a Costco store just down the road in Prince George's County Maryland. Costco has built a wildly successful business based on the idea that you can pay good wages while selling quality products at affordable prices. They've rejected the false choice that says you can serve the interests of your shareholders, or you can serve the interests of your employees, but not both.

I saw the same approach the next day on a visit to an Ace Hardware store just a few blocks away from here. Most of the employees there make \$10 per hour. The owner, Gina Schaeffer, talks about how a better wage sends the message that "we value our employees...as assets to the business because we know they are the people who are on the front lines with our customers." Better-paid employees are also longer-serving employees, she explained. That translates into "robust knowledge of the products we sell and the services we provide," which means the kind of excellent customer service that has helped Gina build, in just over a decade, a thriving business of nine stores employing 185 people.

But she's not an outlier or an aberration. I talk to employers large and small who understand that raising wages is in their own self-interest and part of a successful business model. It keeps employees loyal and productive. It increases morale and reduces absenteeism.

I spoke to a group of restaurant owners recently and what I heard from them over and over again is that training costs as a result of high turnover rates are one of their biggest business expenses. One of them, a bistro-owner from Brooklyn, told me he used to lose dishwashers every few months, back when he paid them \$8.59 per hour. Once he bumped their pay to \$11 per hour, he's had great success retaining them – he had the same four dishwashers for all of 2013, which is a pretty big deal when you're running a restaurant.

Many of the restaurant owners I met also feel strongly that we have to do something about the paltry minimum cash wage for tipped workers, which hasn't increased in more than 20 years. The law allows the employer to pay an unconscionable rate of just \$2.13 per hour, and to use tips to meet the full minimum wage. Every time in recent history that the minimum wage has been debated, it seems, the interests of tipped workers get left on the cutting room floor.

They work exceedingly hard, under great pressure, at irregular hours. But according to a 2012 study by the National Employment Law Project, restaurant servers – 70% of whom are women – are three times more likely to be below the poverty line than the overall workforce and twice as likely to be on food stamps. As the report puts it: "Essentially, many of the workers who serve America its food cannot afford to eat." That's why it's so vitally important that the Harkin-Miller legislation raises the minimum cash wage for tipped workers to 70 percent of the full minimum wage.

Businesses cite a lot of reasons for paying well. One gentleman who runs a record store in St. Louis talked to me about it in terms of an investment in his neighborhood: “If you think about having a relationship with your community and a relationship with your customers, it starts with your relationship to your employees.”

They also very much like the idea of indexing the minimum wage to inflation over time, as the Harkin-Miller bill does. That kind of certainty and predictability is what they need to run their businesses effectively.

What I heard over and over again was the ways that higher wages provide a shot in the arm to the economy by boosting consumer demand. One man who owns a small wholesale nursery in Maryland explained that his workers “are spending 100 percent of their take home pay in the local economy. It’s recirculating. They’re spending it on rent, groceries, cars, new tires – all the things you need to live.”

Workers also understand the larger economic impact. The fast food worker from Durham I met said: “If they would pay us what we need, we could put money back into the economy and pay for what we need. And that strengthens all of us.”

This isn’t a new or original idea. And no less of a capitalist than Henry Ford understood it. Exactly one hundred years ago, faced with high attrition rates that were damaging his business, he took the unusual step of doubling the wages of his assembly line workers. Because he believed that would reverberate throughout the economy. Here’s how he explained his decision:

*"If we can distribute high wages, then that money is going to be spent and it will serve to make storekeepers and distributors and manufacturers and workers in other lines more prosperous and their prosperity will be reflected in our sales. Countrywide high wages spell countrywide prosperity."*

Henry Ford was as cunning a businessman as there has ever been. He believed higher wages were key to the Nation’s economic vitality. It’s as true now as it was then -- raising the minimum wage isn’t just pro-worker; it’s also pro-business. It isn’t just the right thing to do; it’s the smart thing to do.

The minimum wage is now 75 years old, having been established with President Roosevelt’s signing of the Fair Labor Standards Act in 1938. And for as long as a wage floor has even been under consideration, it has been opposed by those who have claimed it would cripple the national economy.

We hear the argument that the consumers will bear the cost of a higher minimum wage, as it will lead to higher prices, particularly on food. But a recent study by the Food Chain Workers Alliance and its partners debunks that myth. It concludes that American households, between

eating in and eating out, will spend all of 10 cents more a day on food – *just 10 cents* -- if the Miller-Harkin legislation becomes law.

All of the naysaying reminds me a little bit of when I served on the Montgomery County Council, and we wrestled with the issue of a smoking ban in local restaurants. There was a lot of dramatic testimony about how no one would eat out anymore and it would be the ruin of the local food and beverage industry. Well, we passed the smoking ban, and I can assure you that the Montgomery County restaurants continue to do quite well.

When it comes to the minimum wage, the doomsday scenarios have never come to pass and the opponents have consistently been on the wrong side of history. The sky did not fall because we guaranteed workers a minimum level of basic economic security. The U.S. economy has continued to grow – and businesses have continued to thrive -- even as the minimum wage has gone up 22 times over the last three quarters of a century. In fact, an analysis of 64 studies of minimum wage increases found “no evidence of a meaningful negative impact on job creation.”<sup>1</sup>

Both Democratic and Republican lawmakers throughout the last several decades have understood this. Raising the minimum wage has historically been a bipartisan exercise, often without great contentiousness or controversy.

President George H.W. Bush and a Democratic Congress did it in 1989. President Clinton and a Republican Congress did it in 1996. President George W. Bush and a Democratic Congress did it again in 2007. There’s no reason to believe we can’t and shouldn’t do it in 2014.

Momentum is gathering in favor of a higher minimum wage, and it is coming from the grass roots. Throughout the country, broad coalitions are coming together to raise state and local minimum wages, either through legislative action or ballot measure. On the first of the year, in fact, an increase went into effect in 13 different states. Twenty-two states and the District of Columbia all have passed a minimum wage higher than the Federal level -- from Vermont to Colorado, from Connecticut to Alaska, from Massachusetts to Washington State.

Also, 24 states and the District of Columbia already have a higher cash wage for tipped workers than the Federal level. Another seven states require tipped employees receive the full state minimum wage. For example, California and Oregon, both with quite successful restaurant industries, give their tipped workers full state minimum wage.

The game has changed and the ground has shifted. A sense of urgency has begun to set in. Part of that is because workers are standing up for themselves. Fast food workers in particular

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<sup>1</sup> Doucouliagos, Hristos and T.D. Stanley. 2009. “Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis.” *British Journal of Industrial Relations*, vol. 47, no. 2, 406-428 at 422.

have been speaking out and taking action, demanding that their hard work be rewarded with a fair wage. And their voices are resonating. More than three-quarters of the American people believe we should increase the minimum wage, according to a recent Gallup poll.

The President is doing everything he can under his authority to respond to that surge, making sure our Federal procurement process reflects that emerging consensus. Last month, he made good on his State of the Union promise to sign an executive order mandating that Federal contractors pay their Federally-funded employees working on new and replacement Federal service, construction, and concession contracts at least \$10.10 an hour. As he put it: "If you cook our troops' meals or wash their dishes, you shouldn't have to live in poverty."

The only thing left is for action to come from these halls. The Congress is lagging behind the states, behind public opinion, behind workers who want more opportunity, behind forward-looking business leaders who want to do well by doing good. Even the conservative party in Great Britain recently embraced a higher minimum wage across the Atlantic.

It is time for the Congress to lead on this urgent issue of economic security and fundamental fairness. It's time for the Congress to say that yes, it will give America a raise.

Thanks to the grit and resilience of the American people, we've come a long way toward our goal of being an opportunity society, a place where anyone can make it if they try, a place where everyone has a fair shot at getting ahead.

I am very optimistic about the direction of our economy. We've gradually emerged from the worst economic crisis of our lifetimes, and now, according to BLS, the private sector has created more than 8.7 million jobs over the last 48 months. The manufacturing sector is resurgent. The housing market has rebounded. We've made strong investments in our citizens and their potential even as we've cut our deficits by more than half.

But too many Americans aren't experiencing this recovery or sharing in this prosperity. They are working harder and harder but falling further and further behind. They are falling short of their dreams through no fault of their own. They are finding the rungs on the ladder of opportunity beyond their reach.

People who work full-time in the wealthiest nation on earth should not live in poverty. That is, in my view, a fundamental article of faith in our country. And yet, that's exactly what our current law mandates, with a full-time minimum wage worker earning an annual income of \$14,500 a year.

That's not what a country built on opportunity does. That's no way to honor the dignity of work, or to build an economy powered by a thriving middle class. When hard-working Americans are undervalued and underpaid, then the American social contract is being breached and we are not truly living up to our values.

But when hard work and responsibility are rewarded, when every American working full-time is able to provide for their family, it makes the whole Nation stronger. The Congress has the power to do that, by taking the long-overdue step of increasing the minimum wage.

The time has come to give the American people a raise. It's a raise they need, a raise they've earned, a raise they deserve. The President and I stand ready to work with you in any way on this important matter. Thank you very much, and I look forward to taking your questions.