



**House
Legislative
Analysis
Section**

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AMEND MINIMUM WAGE LAW

House Bill 4180 (Substitute H-7) First Analysis (9-10-96)

**Sponsor: Rep. Bob Emerson
Committee: Human Resources and Labor**

THE APPARENT PROBLEM:

Recently Congress increased the federal minimum wage rate. Although Michigan's minimum wage law affects a far smaller percentage of workers than its federal counterpart, there are those who feel the wage rate should be increased to correspond with the recent changes in the federal minimum wage and to help workers cope with increases in the cost of living since the state rate was last increased (to \$3.35 per hour in 1981). In addition, some advocate allowing employers to pay a lower, "training wage" to new teenage employees.

THE CONTENT OF THE BILL:

House Bill 4180 would amend the Minimum Wage Law of 1964 to increase the state minimum wage. The Minimum Wage Law of 1964 sets the minimum hourly wage rate that employers must pay to their employees in Michigan. In certain cases, however, employers are governed by the federal minimum wage law. The state's minimum wage law supersedes the federal law in cases where the minimum hourly wage established by the state's law is greater than the federal minimum hourly wage. However, the Michigan act is superseded by the federal minimum wage law in cases where the employer is: 1) engaged in interstate commerce; 2) has a gross annual dollar volume of \$500,000; 3) a hospital or health care facility that cares for the sick, aged or mentally ill; 4) a pre-school, elementary or secondary school, or college; 4) an agricultural employer who employs 500 man days of agricultural labor in a quarter for the current or previous year; 5) a federal, state, or local government; or 6) any enterprise covered by the Fair Labor Standards Act on March 31, 1990. (This refers to those employers who were subject to the federal minimum wage law in 1990 when the gross annual dollar volume requirement was raised from \$362,500 to \$500,000. Those businesses that had a gross dollar volume of \$362,500 or more but less than \$500,000 were required under federal law to continue to pay at least \$3.35 an hour, but were not required to pay the new federal minimum).

Currently, the Michigan minimum wage is set at \$3.35 per hour. The bill would provide for 2 annual increases in the minimum hourly wage set by the state. Specifically, the bill would set those increases as

follows: October 1, 1996, \$4.75; September 1, 1997, \$5.15. These changes would mirror the changes provided for in federal law.

In addition, the bill would allow employers to pay a lower rate to new employees who were less than 20 years old. This training wage of \$4.25 per hour could be paid during the first 90 days of the employee's employment instead of requiring the minimum hourly wage otherwise required by the act.

The bill would also change the amount that employers of tipped employees may deduct from the minimum wage to be paid to those employees. Currently, the employer may reduce the minimum wage rate paid to its employees by up to 25 percent, based upon the amount of gratuities received by the employee, or other items or services provided by the employer for the employees' benefit. Based on the current wage rate these employers must pay their employees no less than \$2.52; the bill would retain the same wage rate for such employees but would remove the language requiring that the employees be paid 75 percent of the minimum wage, requiring instead that the employers pay their employees at least \$2.52.

Finally, the bill would also remove language in the act that requires increases or decreases in the minimum hourly rate after 1967 to reflect corresponding changes in the cost of living and would change a reference to physically and mentally handicapped persons to persons with physical or mental disabilities.

FISCAL IMPLICATIONS:

Fiscal information is not available.

ARGUMENTS:

For:

At \$3.35 an hour, a full time worker would make only \$6,968 in a year. At \$5.15 per hour, the same worker would make \$10,712 a year. The purpose of minimum wage legislation is to provide workers with at least a minimum standard of living. The bill would help to bring

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the minimum wage into line with both increases in the cost of living and the increases in the federal minimum wage. In addition, the bill would make the minimum wage more of a living wage and would help to decrease the degree to which persons being paid the minimum wage need to rely upon public assistance.

Against:

The marketplace, not the government, should determine wages. Raising the minimum wage could lead to further inflation and could force employers to reduce their workforces.

The businesses that are affected by Michigan's Minimum Wage Law are primarily small family-owned businesses. These businesses should have the opportunity to pay the lower wages currently allowed in Michigan's law. If Michigan matches the federally-required minimum wage, the exemption these smaller businesses receive from the federal law is essentially made moot. These smaller businesses work with a smaller margin of profit than the larger businesses subject to the federal law and thus may be far more adversely affected by an increase in the amount that they must pay their employees. Although most small businesses in Michigan already pay more than the minimum wage, they need the flexibility provided in Michigan's current law to set wage levels that are appropriate to their businesses.

For:

The bill will help some businesses to lower their employment costs by providing a training wage for inexperienced, younger employees by allowing the employer to pay less than the regular minimum wage for employees under the age of 20 during the first 90 days of their employment.

Against:

The bill will unfairly allow employers to pay a reduced wage to summer employees. Students working during their summer vacations usually are only employed for about 90 days. Thus it is unlikely that a student working during the summer months to put himself or herself through school would ever receive the minimum wage. Further, this provision would provide an incentive for employers to fire their employees and hire new ones every 90 days in order to avoid having to pay the regular minimum wage.

Against:

The bill unfairly prevents tipped employees from receiving any increase in their minimum wage. Employees who work in situations where they receive gratuities or receive other items or services for their benefit from their employer (such as housing) will not

gain any increase in the wages they are paid by their employers.

Response:

The bill still provides for those employees to receive a cash wage that is higher than the wage rate of \$2.13 provided by the federal law for the same types of employment. Since Michigan's current law and the bill's provisions are both higher than the federal wage set for similarly situated employees, Michigan's law will supersede the federal law.

POSITIONS:

The Michigan AFL-CIO testified in support of the bill. (9-10-96)

The National Federation of Independent Businesses/Michigan opposes the bill. (9-10-96)

Analyst: W. Flory

■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.