

**CALIFORNIA'S RECENT MINIMUM WAGE INCREASES:
REAL WAGE GAINS WITH NO LOSS OF JOBS
MINIMUM WAGE REMAINS INADEQUATE TO MEET CALIFORNIA'S COST OF LIVING**

In the 2½ years following California's increase of its minimum wage, earnings and employment data suggest that higher minimum wages can have a positive impact on the earnings of low wage workers without a loss of jobs.

Since 1996, California's minimum wage rate has been increased twice by federal law and twice pursuant to a voter-passed state initiative.¹ The most recent state increase – to \$5.75 per hour – took effect in March 1998. California is one of ten states with a minimum rate that is higher than the national minimum wage of \$5.15 per hour.² Recent ballot initiatives in Oregon and Washington have raised minimum wages in those states to \$6.50 per hour. Washington's initiative also indexes the state's minimum wage annually to reflect inflation.

State law requires the California Industrial Welfare Commission (IWC) to conduct "a full review of the adequacy of the minimum wage at least once every two years."³ Pursuant to this mandate, the IWC recently established a "wage board" composed of representatives from business and labor to review the state's minimum wage.

This report examines the impact of recent minimum wage increases on wage and employment trends. The evidence suggests that higher minimum wages have increased earnings of workers at the lower end of the income distribution without undermining California's job growth. The finding is consistent with the experiences of other states, where moderate minimum wage hikes have not led to employment losses.

While the recent increases temporarily reversed a decade-long decline in earnings at the low end of the wage distribution, the purchasing power of the minimum wage remains low compared with its value prior to 1982. More importantly, the rate is inadequate to enable either a single person or a family dependent on minimum wage earnings to live moderately well.

WHO BENEFITS FROM A HIGHER MINIMUM WAGE?

Approximately 1.3 million working Californians – nearly ten percent of the workforce – earned less than \$5.75 per hour in the year prior to the March 1998 state increase (Table 1).⁴ Most of these workers received a pay raise that was directly attributable to the increased minimum wage.⁵ Most of the benefits of the recent increases went to adults and full-time workers. The minimum wage increases were especially important for workers in low to moderate income families and Latinos.

- ◆ Four out of five workers (80 percent) directly aided by the new California minimum wage were 20 years of age or older.
- ◆ A majority of workers (56 percent) directly aided by the recent minimum wage increase work full time. Of part-time minimum wage earners, most work at least 20 hours per week.

- ◆ While Latino workers accounted for 29 percent of all California workers in the year prior to March 1998, 53 percent of workers with wages below \$5.75 per hour were Latino.⁶
- ◆ In 1998, more than a third (36 percent) of workers whose wages were within one dollar of California's current minimum wage were parents with minor children. Nearly one in ten workers with such wages (nine percent) were single parents.⁷

| Characteristic | Workers Directly Affected by New Federal Minimum Wage (\$4.75-\$5.14) | Workers Directly Affected by New California Minimum Wage Workers (\$5.15-\$5.74) | Other Low Wage Workers (\$5.75-\$6.74) | Other Workers (\$6.75+) | All Workers |
|----------------------------|--|---|---|--------------------------------|--------------------|
| Average Hourly Wage | \$4.96 | \$5.37 | \$6.15 | \$17.19 | \$14.62 |
| Employment | 630,287 | 648,827 | 1,201,031 | 10,179,034 | 13,008,000 |
| Share of Total | 4.8% | 5.0% | 9.2% | 78.3% | 100.0% |
| Demographics | | | | | |
| Male | 49.7% | 49.1% | 53.2% | 55.4% | 54.4% |
| 16-19 | 11.6% | 9.8% | 6.3% | 0.8% | 2.5% |
| 20+ | 38.1% | 39.4% | 46.8% | 54.6% | 51.9% |
| Female | 50.3% | 50.9% | 46.8% | 44.6% | 45.6% |
| 16-19 | 9.7% | 8.4% | 5.7% | 0.6% | 2.0% |
| 20+ | 40.6% | 42.5% | 41.2% | 44.0% | 43.6% |
| White | 28.3% | 34.7% | 32.9% | 57.9% | 52.5% |
| Male | 13.4% | 17.4% | 15.7% | 30.7% | 27.5% |
| Female | 14.9% | 17.4% | 17.2% | 27.2% | 25.0% |
| Black | n/a | n/a | n/a | 6.2% | 6.1% |
| Male | n/a | n/a | n/a | 3.1% | 3.1% |
| Female | n/a | n/a | n/a | 3.1% | 3.0% |
| Latino | 54.7% | 51.3% | 48.7% | 22.8% | 28.8% |
| Male | 28.8% | 25.9% | 28.6% | 14.7% | 17.4% |
| Female | 25.9% | 25.3% | 20.1% | 8.1% | 11.3% |
| Teens (16-19) | 21.3% | 18.2% | 12.0% | 1.4% | 4.5% |
| Work Hours Per Week | | | | | |
| Full-Time (35+) | 56.6% | 55.2% | 66.7% | 86.0% | 80.5% |
| Part-Time | | | | | |
| 20-34 hours | 26.6% | 32.3% | 24.0% | 10.5% | 14.1% |
| 1-19 hours | 16.8% | 12.5% | 9.3% | 3.6% | 5.4% |

Source: Economic Policy Institute Analysis of Current Population Survey data, March 1997 to February 1998

WHO WOULD BENEFIT FROM AN INCREASE IN THE MINIMUM WAGE?

To determine who would benefit from a higher minimum wage, the California Budget Project (CBP) examined characteristics of California's low wage workforce after the recent minimum wage increases went into effect (Table 2). Of the 1.6 million California workers who earned within one dollar of

California's minimum wage (\$5.75-\$6.74) from July 1998 to June 1999, 84 percent were adult workers over 20 years of age, 62 percent worked full time, 52 percent were female, and 53 percent were Latino.

An additional one million Californians worked for wages one to two dollars above the minimum wage (\$6.75-\$7.74). Of these workers, 73 percent worked full time. Only ten percent were teens. Fifty-one percent were female, and 45 percent were Latino.

| | Workers Within \$1.00 of California's Minimum Wage (\$5.75-\$6.74) | Other Low Wage Workers (\$6.75-\$7.74) | Other Workers (\$7.75+) | All Workers |
|----------------------------|---|---|------------------------------------|--------------------|
| Characteristic | | | | |
| Average Hourly Wage | \$6.05 | \$7.14 | \$18.80 | \$15.61 |
| Employment | 1,631,965 | 999,379 | 9,894,999 | 13,208,070 |
| Share of Total | 12.4% | 7.6% | 74.9% | 100.0% |
| Demographics | | | | |
| Male | 48.3% | 49.4% | 56.4% | 54.4% |
| 16-19 | 9.0% | 5.1% | 0.8% | 2.6% |
| 20+ | 39.2% | 44.4% | 55.6% | 51.8% |
| Female | 51.7% | 50.6% | 43.6% | 45.6% |
| 16-19 | 6.9% | 5.2% | 0.5% | 2.0% |
| 20+ | 44.8% | 45.4% | 43.1% | 43.6% |
| White | 30.9% | 39.0% | 58.5% | 52.6% |
| Male | 13.8% | 15.8% | 32.3% | 28.0% |
| Female | 17.1% | 23.2% | 26.2% | 24.6% |
| Black | 4.5% | 6.1% | 6.9% | 6.5% |
| Male | n/a | n/a | 3.3% | 3.1% |
| Female | n/a | n/a | 3.5% | 3.4% |
| Latino | 53.0% | 44.5% | 22.0% | 28.7% |
| Male | 28.2% | 26.7% | 14.1% | 17.2% |
| Female | 24.7% | 17.8% | 7.9% | 11.6% |
| Teens (16-19) | 16.0% | 10.2% | 1.3% | 4.6% |
| Work Hours Per Week | | | | |
| Full-time (35+) | 61.9% | 72.9% | 87.9% | 81.8% |
| Part-time | | | | |
| 20-34 Hours | 26.8% | 20.1% | 9.3% | 13.3% |
| 1-19 Hours | 11.3% | 7.0% | 2.8% | 4.9% |

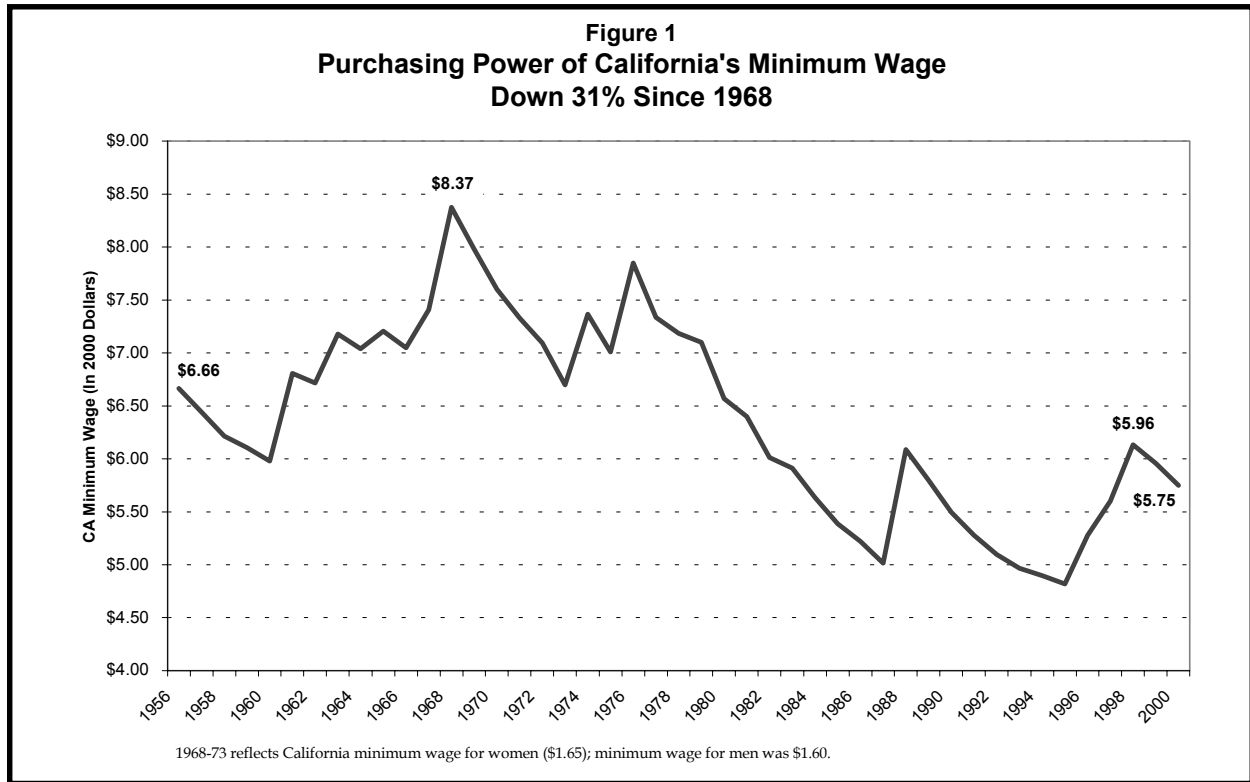
Source: Economic Policy Institute analysis of Current Population Survey Data, July 1998-June 1999

Census data indicate that an increase in California's minimum wage by one or two dollars primarily would benefit working households with incomes below the state median.⁸

ADEQUACY OF CALIFORNIA'S MINIMUM WAGE

The purchasing power of California's minimum wage has declined from an inflation adjusted high of \$8.37 in 1968 to \$5.75 today, a drop of 31 percent (Figure 1). Even with the addition of the federal

Earned Income Tax Credit (EITC), a family of three with a full-time minimum wage worker earns just 105 percent of the federal poverty level.⁹



Four decades ago, to aid its consideration of an appropriate minimum wage, the Industrial Welfare Commission developed an annual budget sufficient to “permit a working woman, entirely dependent on her own resources and supporting no dependents, to maintain a minimum but adequate mode of living.”¹⁰ The “Budget For A Self-Supporting Working Woman” – in later years called “Minnie’s Budget” – was determined to be \$2,855 in 1961 dollars. This worked out to be an hourly wage of \$1.40, or \$8.28 in inflation adjusted dollars.¹¹

Minnie’s Budget was developed at a time when the state minimum wage applied only to women and minor children and used a different set of purchases than would be found in a modern budget.¹² This report constructs a budget for a modern single worker (Table 3).¹³ The hourly wage rate needed to live on the CBP single worker budget is \$8.03, assuming 51 weeks of work per year at 40 hours per week.¹⁴ The CBP budget also assumes that the single worker rents a studio apartment and spends half the U.S. average on transportation and miscellaneous items.¹⁵

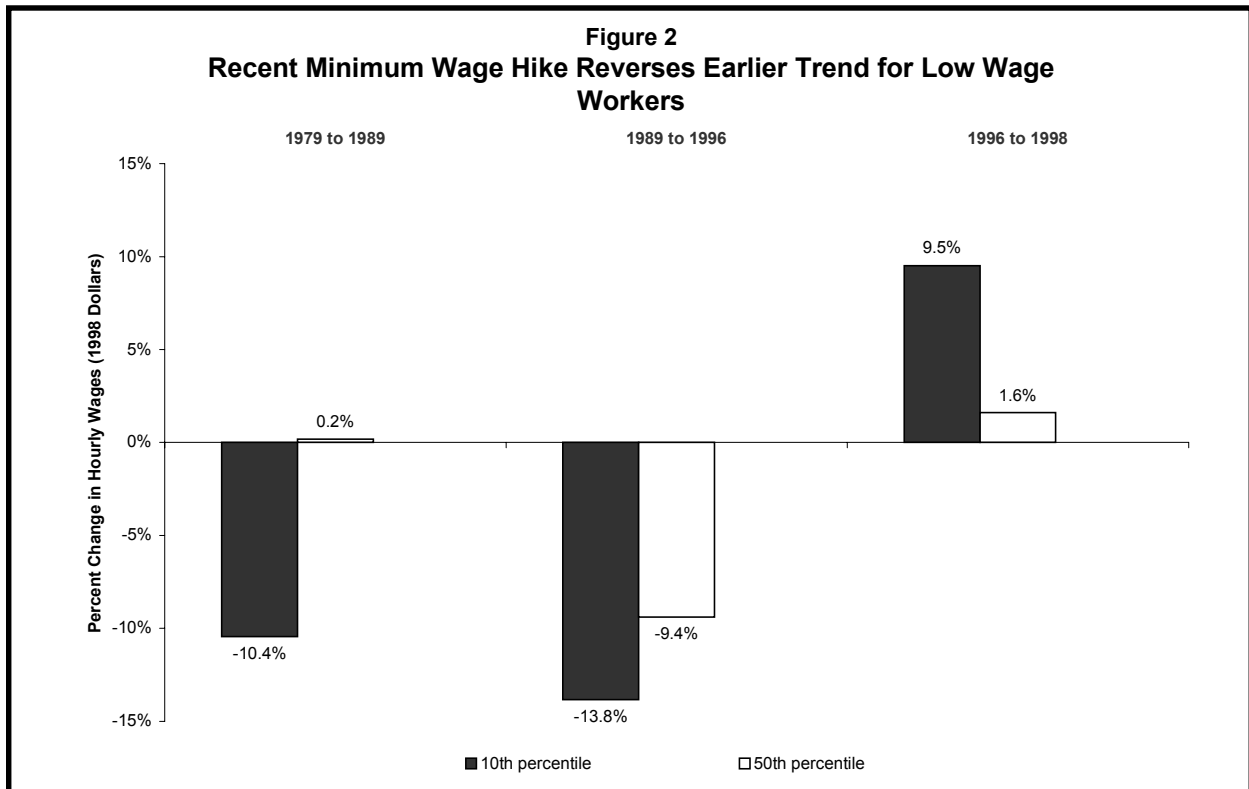
In October 1999, the CBP published *Making Ends Meet: How Much Does It Cost To Raise A Family In California*, estimating the cost of raising a family in various regions of California, and the state as a whole. The *Making Ends Meet* report found that a single parent supporting two children would need an annual income of \$36,828 to live moderately well in California, equivalent to a full-time hourly wage of \$18.05.¹⁶ While \$18.05 per hour is not a starting wage – and this report does not advocate it as a new state minimum wage – it does serve to highlight the gap between an adequate family wage and California’s current minimum of \$5.75 per hour. For example, a single-parent, minimum wage earner working full time, year-round earns less than a third of the annual statewide basic family budget. When the federal EITC is included, the family’s income equals only 40 percent of the basic family budget.

| | Single Worker Without Dependents | | | | Single Worker With Two Children | | |
|-------------------------------|----------------------------------|----------------|------------------|-------------------------------|---------------------------------|----------------|------------------|
| | Annual | Monthly | Percent of Total | | Annual | Monthly | Percent of Total |
| Housing | \$6,668 | \$556 | 40.7% | Housing | \$7,296 | \$608 | 19.8% |
| Child Care | \$0 | \$0 | 0.0% | Child Care | \$11,112 | \$926 | 30.2% |
| Transportation | \$1,620 | \$135 | 9.9% | Transportation | \$2,928 | \$244 | 8.0% |
| Food | \$2,400 | \$200 | 14.7% | Food | \$4,584 | \$382 | 12.4% |
| Health Care | \$1,296 | \$108 | 7.9% | Health Care | \$2,592 | \$216 | 7.0% |
| Miscellaneous | \$1,510 | \$126 | 9.2% | Miscellaneous | \$3,732 | \$311 | 10.1% |
| Taxes | \$2,880 | \$240 | 17.6% | Taxes | \$4,584 | \$382 | 12.4% |
| Total | \$16,374 | \$1,365 | | Total | \$36,828 | \$3,069 | |
| Hourly Wage Equivalent | \$8.03 | | | Hourly Wage Equivalent | \$18.05 | | |

IMPACT ON WAGES

An examination of wage and employment trends in California suggests that the most recent minimum wage increases led to real wage gains for low wage workers, without significant employment losses.

Inflation adjusted wages for workers at the 10th percentile fell nearly 14 percent between 1989 and 1996, and by more than ten percent from 1979-89. However, inflation adjusted wages at the 10th percentile rose 9.5 percent, from \$5.26 to \$5.76 per hour, from 1996-98. By 1998, the 10th percentile wage became virtually identical to the new minimum wage. Minimum wage increases in 1996, 1997, and 1998 pushed wages at or below the 10th percentile up, providing a new floor for low wage workers (Figure 2).

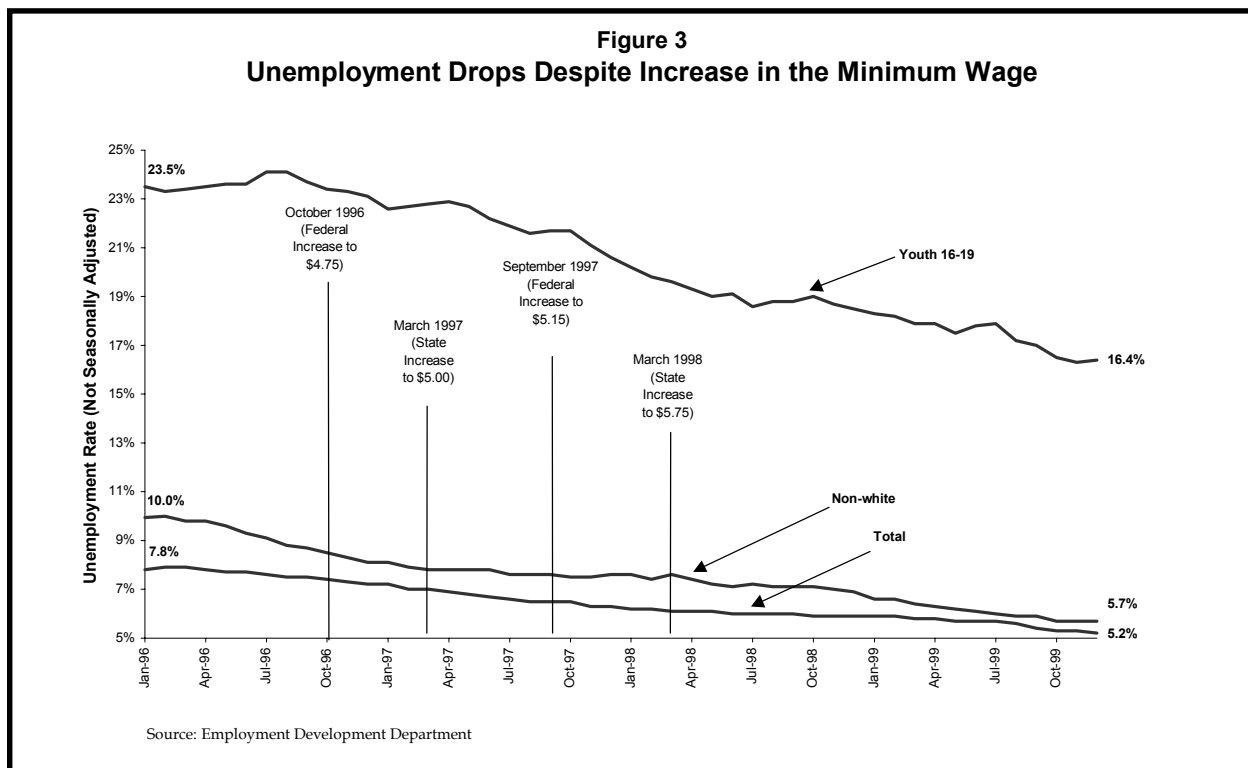


The 1996-98 minimum wage increases appear to have helped reverse the trend that occurred between 1979 and 1989. During that period, inflation adjusted wages at the 90th percentile rose by 4.2 percent, while wages at the 10th percentile declined by 10.4 percent.¹⁷

IMPACT ON EMPLOYMENT

Critics of the minimum wage increase in 1996 predicted it would result in large employment losses. However, data from the California Employment Development Department show a 1.3 million *increase* in the number of people employed and a 276,000 decrease in the number of persons unemployed in California from September 1996 to September 1999.¹⁸

Minimum wage critics also argued that a higher minimum wage would force certain industries that are heavily dependent on low wage workers - particularly in retail trade and services - to cut back on jobs. However, retail trade employment has grown slowly, but steadily, since 1996, while employment in service industries has grown moderately.¹⁹ Moreover, employment trends have been positive for nearly all categories of workers during the period, even those that often are considered vulnerable to employment loss when the minimum wage is raised (Figure 3).



Of course, the issue is not settled by illustrating that employment rose (or unemployment fell) when the minimum wage was increased. A question remains whether, in the absence of a minimum wage increase, employment growth would have been even greater. Research conducted for the CBP shows that workers who disproportionately work for low wages were not harmed by recent minimum wage increases.²⁰ Teenage workers (ages 16-19), Latino workers, and adult workers without high school degrees experienced higher employment growth following the minimum wage hikes than in the two years prior to the recent increases. Moreover, their rate of increased employment exceeded that for workers as a whole (Table 4).

| | Percentage Employed Ages 16 and Older | | | | | |
|-------------------------------------|---------------------------------------|-------|-------|-------|-------|-------|
| | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
| Latinos | 57.5% | 55.8% | 57.3% | 62.1% | 61.4% | 62.1% |
| Adults Without a High School Degree | 41.4% | 40.7% | 40.9% | 49.5% | 48.6% | 50.4% |
| Teenage Workers | 35.3% | 35.6% | 32.6% | 30.3% | 36.7% | 36.0% |
| All Workers | 56.4% | 56.4% | 57.4% | 58.9% | 59.9% | 60.4% |

Source: Current Population Survey, Outgoing Rotation Groups, April through August, various years

OTHER STUDIES

The finding that California’s recent minimum wage increases had a positive effect on wages with little or no loss of jobs is consistent with several other studies.

At the federal level, the Economic Policy Institute found that the 1996 and 1997 minimum wage increases succeeded in raising the wages of 10 million workers while the impact on employment was “statistically insignificant ... (and) almost as likely to be positive as negative.”²¹ At the state level, economists David Card and Alan Krueger found that the 1988 California minimum wage increase had a significant positive effect on wages and “little or no adverse employment effect.”²² They found, as well, that New Jersey’s 1992 minimum wage hike had “little or no systematic effect on total fast-food employment in the state.”²³

Most recently, the Oregon Center for Public Policy found that Oregon’s three-step minimum wage increase – to \$5.50 in January 1997, \$6.00 in January 1998, and \$6.50 in January 1999 – has had “substantial positive impacts on the earnings of low wage workers ... without significantly harming employment opportunities.”²⁴

CONCLUSION

In conclusion, the weight of evidence supports three principle points about the minimum wage and California workers:

- ◆ First, California’s current minimum wage is inadequate to support a minimal standard of living for a family or individual.
- ◆ Second, moderate increases in the minimum wage have been highly effective at raising wages of working families at the bottom of the income distribution.
- ◆ Third, moderate minimum wage increases may have little or no negative impact on employment.

Dan Galpern prepared this Brief. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low and middle income Californians. Publication of this Brief was supported by a grant from the Rosenberg Foundation. Support for the CBP comes from foundation grants, publications and individual contributions.

ENDNOTES

¹ California's minimum wage was increased as a result of a two-step increase required by federal law and a separate two-step increase pursuant to a state statutory initiative (Proposition 210). The minimum increased from \$4.25 to \$4.75 on October 1, 1996, pursuant to federal law; to \$5.00 on March 1, 1997, pursuant to state law; to \$5.15 on September 1, 1997, pursuant to federal law; and to \$5.75 on March 1, 1998, pursuant to state law. Whenever federal and state minimum wage requirements differ, employers are required to provide the higher wage and broader coverage. Legislative Analyst's Office, *Proposition Number 210: Minimum Wage Increase* (August 12, 1996).

² Connecticut, Delaware, Massachusetts, Oregon, Washington, and the District of Columbia have rates that are higher than California's. The federal minimum wage has not been adjusted since September 1997. Regions with higher-than-federal minimum rates include Alaska (\$5.65), Connecticut (\$6.15), Delaware (\$5.65, to increase to \$6.15 on October 1, 2000), the District of Columbia (\$6.15), Hawaii (\$5.25), Massachusetts (\$6.00, to increase to \$6.75 on January 1, 2001), Oregon (\$6.50), Rhode Island (\$5.65), Vermont (\$5.75), and Washington (\$6.50). U.S. Department of Labor at www.dol.gov/dol/esa/public/minwage/america.htm.

³ Labor Code Section 1173. When the Industrial Welfare Commission finds that the minimum wage is "inadequate to supply the cost of proper living" it must establish a "wage board" composed of equal numbers of employers and employees. The wage board, in turn, must make a recommendation on a more adequate minimum wage, which the Commission may accept, alter, or reject. Labor Code Section 1182 (a). Details of the IWC process can be found at www.dir.ca.gov/IWC/iwc.html.

⁴ Information in Table 1 and Table 2 is from an Economic Policy Institute analysis of Current Population Survey data.

⁵ The minimum wage law covers most employees in California. Exceptions include state, county, and municipal employees, outside salespersons, and any employee who is the parent, spouse, or child of his or her employer. In addition, with certain restrictions Wage Orders of the Industrial Welfare Commission permit sub-minimum wages (85 percent of the minimum wage) for "learners" (newly employed workers with little experience) and to minors. Industrial Welfare Commission, MW-98 and Section 4 of IWC Wage Orders 1-15.

⁶ Along these same lines, women make up 46 percent of the total workforce, but 51 percent of those with wages below \$5.75 per hour. Calculations are based on a weighted average of data in Table 1, columns 1 and 2.

⁷ Economic Policy Institute analysis of Current Population Survey data for 1998.

⁸ Economic Policy Institute analysis of CPS Outgoing Rotation Group (ORG) files. If the minimum wage were increased by one dollar, below median income working households would receive an estimated 75.5 percent of the resulting increase in earnings. If the minimum wage were increased by two dollars, households with incomes below the median would receive 71.8 percent of the gains.

⁹ The EITC is a refundable federal tax credit that provides assistance to low income families that have income from work.

¹⁰ California Industrial Welfare Commission, *Budget for a Self-Supporting Working Woman* (June 1961). Also see California Industrial Welfare Commission, *Historical Review of Minimum Wage Issues* (January 1985).

¹¹ Based on 51 weeks of work at 40 hours per week.

¹² The California Labor Code was amended in 1972 to include men under coverage by Industrial Welfare Commission Wage and Hours Orders.

¹³ Transportation and miscellaneous costs from average 1997 consumer expenditures for a single person, U.S. Census Bureau, *Statistical Abstract of the United States*, 1999, p. 472. Weighted average Fair Market Rents for 2000 and health insurance costs from 1999 are based on data from www.huduser.org/datasets/fmr/html and www.pacadvantage.org, respectively.

¹⁴ The CBP single worker budget adopts the Minnie's Budget standard in this regard.

¹⁵ Miscellaneous items include education and reading costs, telephone, clothing, and personal care. The hourly wage required if the worker rented his or her own one bedroom apartment would rise to \$8.79. If the worker split rent on a two bedroom apartment, the required hourly minimum wage would fall to \$6.84. Overall, Minnie's Budget was higher in miscellaneous and food costs, but lower in housing.

¹⁶ California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise A Family In California?* (October 1999). Where a family contains two parents and one wage earner, the basic family budget is \$31,356. Less income is needed because the second parent is assumed to be available for child care. The numbers are based on statewide costs. Hourly wages reported here are based on 51 weeks of work per year, and 40 hours of work per week.

¹⁷ Tenth percentile wages appear to have been drawn down by the diminishing purchasing power of the minimum wage, as during the 1979-87 period the minimum wage lost 26 percent of its value.

¹⁸ Employment increased from 14,495,000 to 15,775,000 persons, while unemployment decreased from 1,093,000 to 817,000 over the period.

¹⁹ Employment Development Department data show that retail trade grew by five percent over the period, while services grew by 14 percent. Downloaded from www.calmis.ca.gov/htmlfile/subject/indtable.htm#table.

²⁰ David Carroll, *Should California Adopt A Higher Minimum Wage?* (Goldman School of Public Policy, University of California, Berkeley: May 5, 2000), pp. 39-42.

²¹ Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase* (Economic Policy Institute: 1998), p. 1.

²² David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, New Jersey: Princeton University Press, 1995), p. 110.

²³ *Ibid.* p. 66. Also, David Card and Alan Krueger, *A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast Food Industry with Representative Payroll Data* (Princeton, New Jersey: Industrial Relations Section, Princeton University, Working Paper # 393, January 1998).

²⁴ Jeff Thompson, *Oregon's Increasing Minimum Wage Brings Raises to Former Welfare Recipients and Other Low Wage Workers Without Job Losses* (Oregon Center for Public Policy: June 2, 1999), p. 1.