

MINIMUM WAGE INCREASES BOOST THE EARNINGS OF LOW-WAGE CALIFORNIA WORKERS

California workers earning at or near the minimum wage are predominantly adults working full-time, and a majority are Latino. Since 1996, when the first of a series of actions raised the state and federal minimum wage, the hourly earnings of low-wage California workers have risen substantially. Contrary to the predictions of critics, recent wage gains among workers earning at or near the minimum do not appear to be associated with a loss of jobs in low-wage industries, such as food service and retail.

Most Minimum Wage Workers are Adults and Work Full-Time

In 2003, more than six out of ten California workers earning within one dollar per hour of the minimum wage were aged 25 or older, while only about one out of six (16.9 percent) were teens (Table 1). A full 60.7 percent of California's low-wage workers worked full-time. More than half (54.1 percent) of low-wage workers were Latino. In contrast, Latinos accounted for 32.6 percent of all California workers. Low-wage workers were disproportionately employed in the leisure and hospitality industry, and in wholesale and retail trade.

A Rising Minimum Wage Appears to Contribute to Rising Earnings

The hourly wages of those at the bottom of the earnings distribution have risen substantially since 1996, when the first of a series of actions raised the state and federal minimum wage.¹ Between 1996 and 2003, the inflation-adjusted hourly earnings of the California workers at the 10th and 20th percentiles of the earnings distribution increased, as did those of the median worker (the worker at the middle of the earnings distribution) (Table 2). However, the earnings of the worker at the 10th percentile of the

Table 1: Characteristics of California's Low-Wage Workers (2003)

	Low-Wage Workers	All Workers
Age		
16 to 19	16.9%	4.2%
20 to 24	22.5%	11.0%
25 to 64	60.6%	84.8%
Gender		
Male	48.2%	53.8%
Female	51.8%	46.2%
Race		
Latino	54.1%	32.6%
White	32.2%	47.1%
Other	13.7%	20.3%
Hours of Work		
Full-time (35 or more hours per week)	60.7%	82.2%
Part-time		
20 to 34 hours per week	27.3%	12.9%
1 to 19 hours per week	11.9%	4.9%
Industry		
Educational and Health Services	11.2%	19.7%
Leisure and Hospitality	25.3%	8.7%
Manufacturing	11.8%	13.1%
Wholesale and Retail Trade	18.5%	14.8%
All Others	33.2%	43.7%

Note: Includes working population ages 16 to 64. Low-wage workers are those with an hourly wage between \$6.75 and \$7.74 per hour.

Source: CBP analysis of Current Population Survey data

earnings distribution rose by a larger percentage (19.9 percent) than those of the worker at the 20th percentile (15.9 percent), and the earnings of the worker at the 20th percentile increased by a larger percentage than those of the worker at the median (9.9 percent).

Table 2: Hourly Wages of California Workers (2003 Dollars)

	1990	1996	2003	Percentage Change	
				1990 to 1996	1996 to 2003
10th Percentile	\$6.48	\$5.84	\$7.00	-9.9%	19.9%
20th Percentile	\$7.96	\$7.29	\$8.45	-8.4%	15.9%
Median	\$13.65	\$13.10	\$14.40	-4.0%	9.9%

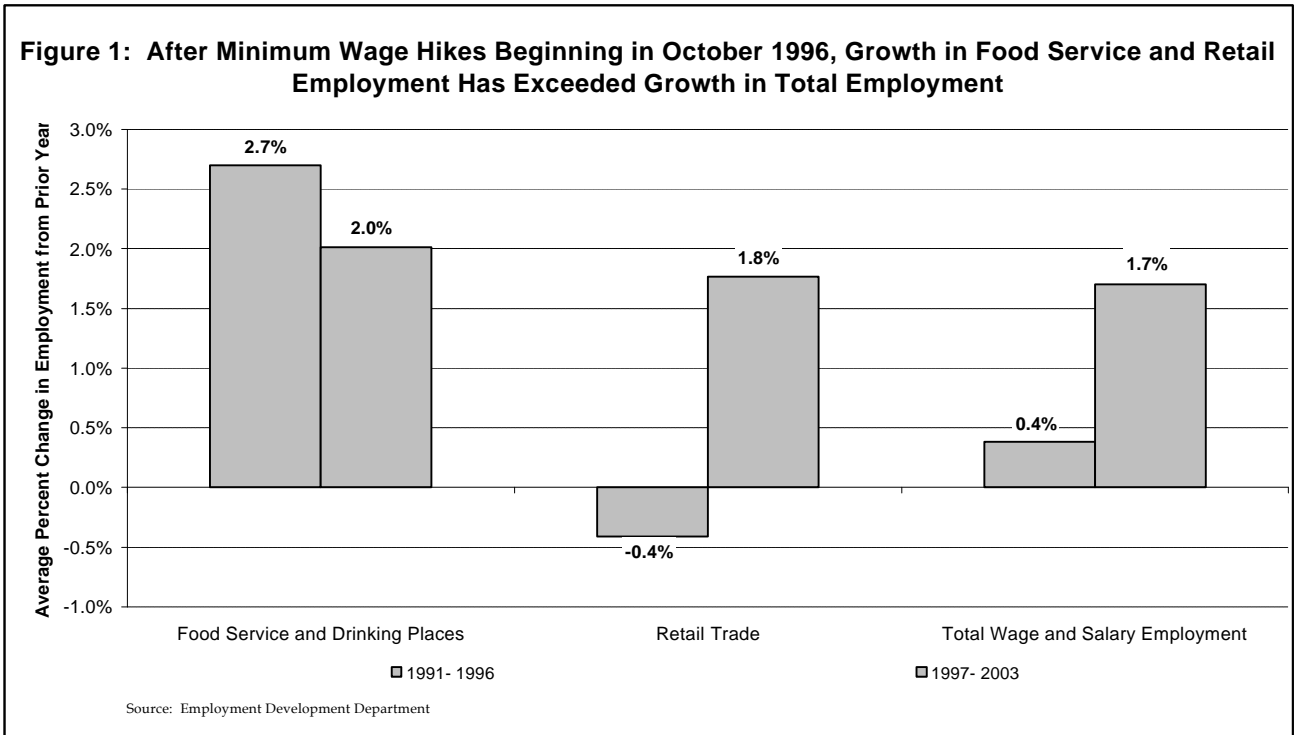
Note: Includes working population ages 16 to 64
 Source: CBP analysis of Current Population Survey data

Between 1990 and 1996 – when the minimum wage was not raised – the opposite took place. The inflation-adjusted hourly earnings of California workers at the 10th and 20th percentiles of the earnings distribution fell, as did those of the median worker. However, the earnings of the worker at the 10th percentile fell by a larger percentage (9.9 percent) than those of the worker at the 20th percentile (8.4 percent), and the earnings of the worker at the 20th percentile fell by a greater percentage than those of the worker at the median (4.0 percent).

A rise in the minimum wage is more likely to affect the earnings of low-wage workers than it is likely to affect the wages of the worker at the middle of the earnings distribution. This occurs because when a minimum wage hike raises the hourly earnings of workers at the minimum, employers also tend to increase the wages of workers just above the minimum wage in order to maintain pay differentials based on experience or other factors.

Moderate Increases to the Minimum Wage Do Not Appear to Contribute to Job Losses

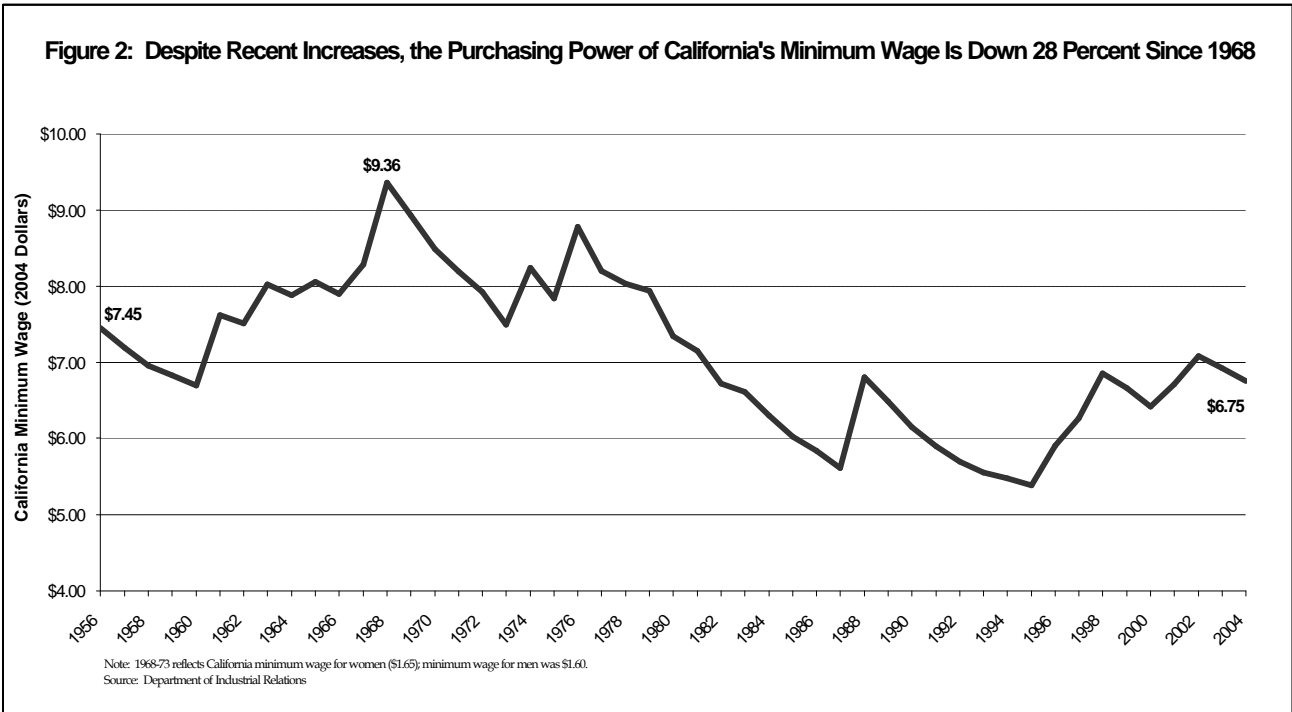
Mounting evidence suggests that moderate increases to the minimum wage result in little, if any, loss of employment.² Critics still argue, however, that a higher minimum wage would force industries that depend heavily on low-wage workers, such as restaurants and retail trade, to reduce employment. An analysis of California employment data before and after state and federal actions increased California’s



minimum wage fails to support the critics' argument. Between 1997 and 2003, average annual growth in both Food Service and Drinking Places and Retail Trade employment outpaced the average annual increase in total wage and salary employment (Figure 1). Between 1991 and 1996, average annual growth in Food Service and Drinking Places employment also outpaced the average annual increase in total wage and salary employment. However, the average annual increase in Retail Trade employment lagged the average annual increase in wage and salary employment.³

The Purchasing Power of California's Minimum Wage Has Declined Over Time

While recent state and federal actions have partly reversed the erosion in the purchasing power of California's minimum wage, the inflation-adjusted value of the minimum wage remains 28 percent lower than in 1968 (Figure 2). Since 2002, the purchasing power of the state's minimum wage has dropped \$0.33, a 4.7 percent decline. Absent action, its value will continue to deteriorate. Four decades ago, California's 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.”⁴ The “Budget for a Self-Supporting Working Woman” – called “Minnie’s Budget” in later years – was estimated at \$2,855 in 1961 dollars, equivalent to an hourly wage of \$1.37 for full-time, full-year work. This equates to an hourly wage of \$9.08 in 2004 dollars.

The California Budget Project estimated a “basic family budget” for the state as a whole and for 10 regions within the state.⁵ This report estimates that a full-time, full-year single adult needed to earn \$11.03 per hour to cover the cost of basic necessities in 2003. A single parent with two children needed to earn \$23.54 per hour to make ends meet. While \$23.54 per hour is not a starting wage, it does highlight the disparity between California’s minimum wage of \$6.75 per hour and the earnings needed to support a family. Even the \$11.03 per hour needed to support a single adult is far higher than the

earnings generated by full-time minimum wage work.

CONCLUSION

The weight of the evidence supports three main points about the minimum wage and California workers:

- First, California's current minimum wage is inadequate to support a single adult, much less a family.
- Second, moderately increasing in the minimum wage has been an effective tool for raising the earnings of the state's low-wage workers.
- Third, moderate minimum wage increases do not appear to be associated with job loss in industries that employ large numbers of low-wage workers

ENDNOTES

¹ Between 1996 and 1998, California's minimum wage was raised as a result of a two-step increase required by federal law and a separate two-step increase pursuant to a voter-approved initiative (Proposition 210 of 1996). The minimum wage increased from \$4.25 to \$4.75 in October 1996 pursuant to federal law; to \$5.00 in March 1997 pursuant to state law; to \$5.15 in September 1997 pursuant to federal law; and to \$5.75 in March 1998 pursuant to state law. The State's Industrial Welfare Commission (IWC) raised the minimum wage from \$5.75 to \$6.25 per hour in January 2001, and again to its current level of \$6.75 per hour in January 2002.

² For a recent review of this literature, see Jeff Chapman, *Employment and the Minimum Wage: Evidence from Recent State Labor Market Trends* (Economic Policy Institute: May 11, 2004), pp. 13-16.

³ 1990 is the earliest year for which the Employment Development Department publishes industry-based data using North American Industrial Classification System (NAICS) codes comparable to those used for later years.

⁴ California Industrial Welfare Commission, *Budget for a Self-Supporting Working Woman* (June 1961). See also, California Industrial Welfare Commission, *Historical Review of Minimum Wage Issues* (January 1985).

⁵ California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* (October 2003).

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. General operating support for the California Budget Project is provided by foundation grants, individual donations, and subscriptions. A grant from the Rosenberg Foundation supported the preparation of this report. Please visit the CBP website at www.cbpp.org.
