

CALIFORNIA'S TWO-STEP MINIMUM WAGE INCREASE PROVIDES AN IMPORTANT BOOST TO LOW-WAGE WORKERS' EARNINGS

On January 1, 2008, California's minimum wage will rise to \$8.00 per hour. This represents the second of a two-step increase legislated in 2006 to raise the state's minimum wage by \$1.25 per hour. Although this increase provides an important boost to low-wage workers' earnings, the state's minimum wage still falls short of providing sufficient income to lift low-income families out of poverty. Moreover, the purchasing power of California's minimum wage remains low by historical standards and will erode in coming years if the state does not act to increase it.

K E Y F A C T S

- **California's minimum wage will increase to \$8.00 per hour on January 1, 2008.**
- **The two-step increase in the state's minimum wage provides an important boost to low-wage workers' earnings.**
- **Despite recent increases, the state's minimum wage falls short of providing sufficient income to lift low-income families out of poverty.**

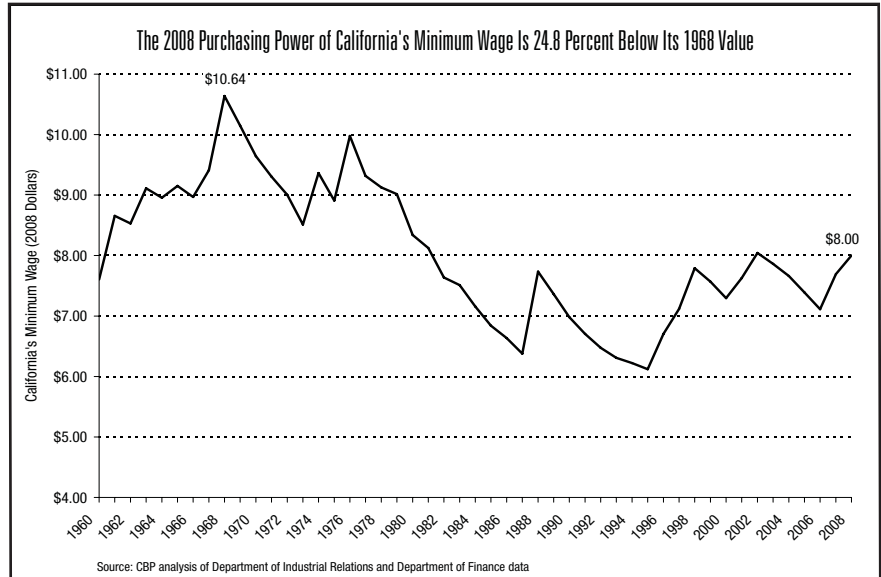
In 2006, California raised the minimum wage by \$1.25 per hour over two years, the first increase since the minimum wage was set at \$6.75 per hour in January 2002. The state's minimum wage rose to \$7.50 per hour on January 1, 2007 and will increase to \$8.00 per hour on January 1, 2008. Together, these two increases will benefit nearly 1.4 million California workers who earned less than \$8.00 per hour in 2006, a majority of whom are adults.¹

The two-step increase in California's minimum wage amounts to \$2,600 more in annual earnings in 2008 – before federal and state payroll-tax deductions – than in 2006 for minimum wage workers who work full-time.² These additional earnings could pay for more than two and one-half months of rent for a one-bedroom unit, 873 gallons of gas, or approximately one year of food for a single adult.³

An individual who works full-time at the minimum wage in 2008 will earn \$16,640 – \$252 less than the projected 2008 federal poverty line for a family of three.⁴ However, the poverty line is widely considered an inadequate measure of families' well-being, in part because it does not take into account California's high cost of living. The California Budget Project's (CBP) Basic Family Budget estimates how much workers need to earn to pay for basic necessities. Based on this measure, a minimum wage salary in 2007 provided approximately one-quarter (26.1 percent) of the income needed to cover the basic expenses of a family of three in California and slightly more than half (55.1 percent) of the income needed to cover the basic expenses of a single adult with no children.⁵

- **Despite the two-step increase in California's minimum wage, the purchasing power of the minimum wage remains low by historical standards.**

In 2008, the purchasing power of the state's minimum wage will be 24.8 percent below what it was in 1968. Between 2002 and 2006 alone, the purchasing power of the minimum wage fell by 11.6 percent.



- **California can prevent the erosion of the minimum wage's purchasing power by "indexing" the minimum wage to inflation.**
- **Indexing likely would result in modest, predictable increases to the minimum wage that employers would be able to anticipate and plan for.**
- **Indexing likely would have a minimal impact on employment.**

Indexing would automatically adjust the state's minimum wage each year to keep pace with the cost of living, thereby ensuring that the purchasing power of the minimum wage remains the same over time.⁶ Ten states have indexed their minimum wages to inflation.⁷

Inflation has increased by an average of 3.0 percent per year in California since 2001. A 3.0 percent increase would raise the state's minimum wage from \$8.00 per hour in 2008 to \$8.24 per hour in 2009. In contrast, past changes to the state's minimum wage have been sporadic, with increases as high as 21.1 percent over a two-year period, followed by several years with no increase at all.⁸

High-quality research by leading academic economists in the 1990s provided compelling evidence that minimum wage increases have little or no impact on employment.⁹ A more recent study echoes these findings, concluding that state minimum wage increases implemented since 1997 had no statistically significant effect on employment.¹⁰ Because indexing would result in modest increases in California's minimum wage, overall employment effects almost certainly would be minimal.

Alissa Anderson Garcia prepared this Policy Points. 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 CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

- ¹ CBP analysis of US Census Bureau, Current Population Survey data. This analysis includes individuals who earned between \$6.75 per hour and \$7.99 per hour in 2006. An increase in the minimum wage also affects the hourly wages of workers earning just above the minimum wage because employers tend to increase the wages of those employees to maintain pay differentials based on experience or other factors.
- ² Assumes 40 hours of work per week, 52 weeks per year in 2006 and 2008.
- ³ The rent calculation is based on the 2008 Fair Market Rent (FMR) for a one-bedroom unit in California, which the CBP estimates to be \$1,006 per month. The CBP estimated California's FMR by averaging the US Department of Housing and Urban Development's FMRs in each of the state's counties, weighted by population. The gas calculation is based on the average weekly price of regular gasoline in California between the week beginning November 20, 2006 and the week ending November 13, 2007, as reported by the California Energy Commission. The food calculation is based on the June 2006 US Department of Agriculture Low Cost Food Plan and the 2005 Consumer Expenditure Survey (CES), adjusted for inflation using the Consumer Price Index. For details on the food calculation, see California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* (October 2007).
- ⁴ CBP analysis of Department of Finance and US Census Bureau data. Assumes 40 hours of work per week, 52 weeks per year. The projected poverty line is based on the projected increase in the Consumer Price Index for All Urban Consumers (CPI-U). Family of three assumes one adult and two children.
- ⁵ An individual who worked 40 hours per week, 52 weeks per year at the minimum wage in 2007 earned \$15,600 before federal and state payroll-tax deductions. In order to support a modest standard of living, the CBP estimates that a single adult with two children needs to earn \$59,732 per year, while a single adult with no children needs to earn \$28,336 per year. See California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* (October 2007).
- ⁶ See California Budget Project, *Indexing the Minimum Wage to Inflation* (May 2006).
- ⁷ These states are Arizona, Colorado, Florida, Missouri, Montana, Nevada, Ohio, Oregon, Vermont, and Washington. Economic Policy Institute, *EPI Issue Guide Minimum Wage* (April 2007) and personal communication with Liana Fox at the Economic Policy Institute (December 11, 2007).
- ⁸ California's minimum wage increased by 21.1 percent between 1996 and 1998, then did not increase between 1998 and 2000. Between 2000 and 2002, the state's minimum wage increased by 17.4 percent, then did not increase between 2002 and 2006. Between 2006 and 2008, the state's minimum wage will increase by 18.5 percent.
- ⁹ For a review of the literature, see Liana Fox, *Minimum wage trends Understanding past and contemporary research* (Economic Policy Institute: October 25, 2006). This body of research has helped to foster an increasingly widespread agreement among economists that increases in the minimum wage benefit workers without a negative effect on jobs. More than 650 economists, including five Nobel Prize winners and six past presidents of the American Economics Association, signed a statement in 2006 stating that "a modest increase in the minimum wage... would not have the adverse effects that critics have claimed. In particular, we share the view the Council of Economic Advisors expressed in the 1999 Economic Report of the President that 'the weight of the evidence suggests that modest increases in the minimum wage have had very little or no effect on employment.'" See Economic Policy Institute, *Hundreds of Economists Say: Raise the Minimum Wage* (October 2006).
- ¹⁰ See Paul Wolfson, *State minimum wages A policy that works* (Economic Policy Institute: November 27, 2006).