



May 5, 2000

A Higher Minimum Wage Benefits Low Wage Workers

A recently released study by the Public Policy Institute of California (PPIC), *Increasing the Minimum Wage: California's Winners and Losers*, argues that poor families would receive little benefit from an increase in the minimum wage. The study's findings are at odds with those of other research and the most recent data available to the California Budget Project (CBP). Specifically:

1. The PPIC study finds that families in the bottom 40 percent of the income distribution received only 43 percent of additional earnings attributable to the 1996-97 increase in the federal minimum wage (from \$4.25 to \$5.15 per hour).¹

In contrast, a 1998 study by the Economic Policy Institute (EPI) found that the bottom 40 percent of working households received 60 percent of the 1996-97 minimum wage increase.² The major factor appears to be that PPIC study examines the impact of the minimum wage on all families, regardless of whether they have earnings, while EPI focuses on the impact of a minimum wage hike on families with earnings from work. Families without wage earners are more likely to have low incomes. Thus, it is not surprising that poor families, as a whole, received disproportionately less benefit from the last federal minimum wage hike than was received by other workers. An increase in the minimum wages only helps those who work. Low income persons who work, benefit; those who don't, don't.

2. The PPIC study estimates that the 1996-97 minimum wage increase caused the average California family to pay an additional \$133 per year, and a low income family to pay \$84 more per year, due to higher prices for goods and services produced by low wage workers. The estimate is based on an explicit assumption that "the entire increase in labor costs would be passed on to consumers in the form of higher prices."³

This assumption is implausible at best, as the authors readily admit.⁴ While a share of minimum wage increases may be passed on in higher prices, there is little evidence to support the supposition that 100 percent of such labor costs are passed to consumers. In fact, a 1999 US Department of Agriculture study of food products and food service industries - sectors employing a disproportionate share of minimum wage workers - estimated that a \$0.50 increase in the minimum wage would increase food prices by no more than one percent.⁵

¹ Margaret O'Brien-Strain and Thomas MacCurdy, *Increasing the Minimum Wage: California's Winners and Losers* (Public Policy Institute of California, May 2000), pp. 23-5.

² Jared Bernstein and John Schmitt, *Making Work Pay: The Impact of the 1996-97 Minimum Wage Increase* (Economic Policy Institute, 1998) Appendix Table 2, p. 49.

³ Public Policy Institute of California, "Increasing the Minimum Wage," PPIC Research Brief (May 2000).

⁴ Margaret O'Brien-Strain and Thomas MacCurdy, *Increasing the Minimum Wage: California's Winners and Losers* (Public Policy Institute of California, May 2000), p. 51.

⁵ Chinkook Lee and Brian O'Roark, "The Impact of Minimum Wage Increases on Food and Kindred Products Prices," *Economic*

Despite this assumption, the total benefits of increasing the minimum wage substantially outweighed costs in California for families in the bottom three income quintiles (those in the lower 60 percent of the income distribution).⁶

Study is Based on Old Data; California's Low Wage Workforce has Changed

The PPIC study relies on data from the Survey of Income and Program Participation from 1992-93 as the basis of its analysis. California's low wage workforce has changed considerably since that time. Welfare reform and a strong economy have encouraged many poor families to enter the workforce. In 1993, welfare caseloads were 50 percent higher than they are today and the unemployment rate was nearly 5 percentage points higher. During the period examined by the report, California had relatively more non-working poor families and relatively fewer working poor families. Analysis based on more recent data would undoubtedly show a greater share of the benefits accruing to working poor families.

Who are California's Minimum Wage Workers?

The PPIC study emphasizes the disadvantages and minimizes the potential benefits of a higher minimum wage. More recent data suggests that 1.6 million Californians work at or near the minimum wage (\$5.75 - \$6.74 per hour).⁷ These workers are:

- Overwhelmingly adults. Adults age 20 or older account for 84 percent of the workers at or near California's minimum wage.
- Mostly full-time workers. Full-time workers (35 or more hours per week) account for 62 percent of the workers at or near the minimum wage.
- Predominantly women; 52 percent are female.
- Oftentimes working to support a family. Over a third (36 percent) of workers who earn within one dollar of the state minimum are working parents with dependent children.
- Primarily among the state's low income families. More than three quarters (76 percent) of the benefit of a one dollar increase would go to workers whose total household incomes are below the state median.

The California Budget Project will release an analysis of the adequacy of the state minimum wage later this month.

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. Support for the California Budget Project comes from foundation grants and individual donations and subscriptions.

⁶ Research Service, Technical Bulletin Number 1877, United States Department of Agriculture (July 1999).

⁶ Margaret O'Brien-Strain and Thomas MacCurdy *Increasing the Minimum Wage: California's Winners and Losers* (Public Policy Institute of California, May 2000) p. 43-44. Moreover, the study found that if the state raised its minimum rate while the national standard remained unchanged the cost-benefit analysis would be even more favorable to Californians.

⁷ Economic Policy Institute analysis of the Current Population Survey provided to the California Budget Project.