QUESTIONS AND ANSWERS ON THE MINIMUM WAGE IN CALIFORNIA

October 15, 2002

Q: Does increasing the minimum wage raise wages?

After the minimum wage increases in California between 1996 and 2001, wages rose substantially for those at the bottom of the wage distribution. Wages for workers at the 10th percentile rose by 15.6 percent between 1995 and 2001, after adjusting for inflation.[1] While the recent increases reversed a decline in earnings at the low end of the wage distribution, the purchasing power of the minimum wage remains below its 1981 value.[2]

Q: Who is affected by the minimum wage in California?

California workers earning at or near the minimum wage, between $6.25 and $7.25, in 2001 were predominantly full-time workers (55.7 percent). Approximately one half (52.7 percent) were Latino, while Latinos accounted for only 29.8 percent of all 2001 California workers. Similarly, women made up 46.2 percent of California's workforce, but 55.4 percent of low-wage workers were women. Contrary to popular perceptions, relatively few low-wage workers were teens in 2001 (20.1 percent), and workers over the age of 25 made up 57.5 percent of California's low-wage workers.

Q: Isn't the minimum wage only an "entry-level" wage?

Many workers who have minimum wage jobs do move on to higher paying jobs. However, a substantial fraction of adult workers spend many years at jobs paying at or near the minimum wage. A 1999 study by government economists estimates that over 8 percent of workers nationally spend at least half of their first ten post-school years in jobs that pay within a dollar of the minimum wage.[3] That is roughly the same as the current portion of California workers in jobs that pay near the minimum.[4] This indicates that a sizable fraction of workers stay in jobs at or near the minimum wage for a significant period of time.

Q: Does increasing the minimum wage cost jobs?

Mounting evidence indicates that moderate increases to the minimum wage result in little, if any, employment loss. Many economists now agree that modest wage increases do not lead to large job losses. Debate now centers on whether job losses exist or are merely very small.[5]

Minimum wage critics also argue that a higher minimum wage would force certain industries that are heavily dependent on low-wage workers – particularly retail trade and services – to cut back on jobs. However, retail trade employment has grown 15.2 percent from 1995 to 2001, while employment in the service industry has experienced even stronger employment growth (25.7 percent). Furthermore, despite the recent economic downturn in California, employment in the retail trade industry has continued to rise since January 2002. Employment in the service industry has declined slightly between January and August 2002, but has fared better than some high-wage industries.[6]

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Q: Do minimum wage increases benefit the poor?

One way to measure if minimum wage increases are well-targeted is to arrange all California families by income into ten groups (deciles) and determine how many workers affected by minimum wage increases fall into each group. Since many of those in the lowest decile are likely unemployed, one could expect a minimum wage increase to be well targeted if it principally affects families in the second, third, and fourth deciles. Analysis of Census data indicates that about half of those who benefited from minimum wage increases in the late 1990s were from families whose income fell into the second to fourth deciles. Over 10 percent of benefited workers were from families whose income was in the two highest income deciles.[7]

Q: What are other benefits of increasing the minimum wage?

Insofar as a higher minimum helps "make work pay," it may reduce usage of public assistance by poor families. A higher minimum wage increases earnings for those who both have a job and also rely on welfare or food stamps, and it also makes working more appealing for those who are not yet working. Both of these effects would reduce reliance on public assistance. While few studies have been conducted on this issue, it appears that minimum wage increases do reduce welfare caseloads, perhaps substantially.[8]

Endnotes

[1] CBP analysis of Current Population Survey data.

[2] CBP analysis of Current Population Survey data. Wages at the 10th percentile declined from $7.59 in 1979 to $6.06 in 1995, and then increased steadily to $7.00 in 2001 (all figures in 2001 dollars). Purchasing power of the minimum wage is from CBP analysis of Department of Finance data.

[3] William J. Carrington and Bruce C. Fallick, *Minimum Wage Careers?* (Board of Governors of the Federal Reserve System Finance and Economics Discussion Series, No. 1999-46, 1999).

[4] CBP analysis of Current Population Survey data indicates that 10.6 percent of California's working population (ages 16 to 64) earned between $6.25 and $7.25 per hour in 2001.

[5] See, for example, John Kennan, *The Elusive Effects of Minimum Wages* (Journal of Economic Literature, December 1995).

[6] Employment Development Department data show that retail trade employment has increased 0.8 percent from January to August 2002, whereas employment in the service industry has declined slightly (0.5 percent). Employment has also declined over the same period in several high-wage industries, including manufacturing (1.9 percent); transportation and public utilities (1.9 percent); and finance, insurance and real estate (0.6 percent).

[7] California Budget Project analysis of 1996 and 1998 March Current Population Survey data.

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