Testimony Before the Industrial Welfare Commission

Hearing on the California Minimum Wage

Dan Galpern

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Good morning. The California Budget Project is a nonpartisan research and education organization dedicated to promoting a better understanding of state fiscal policy issues affecting low and moderate income Californians.

My testimony covers two points: the adequacy of the minimum wage when compared with basic family expenses, and the impact of the most recent minimum wage increases on California workers.

Adequacy of California's Minimum Wage

California's minimum wage is not what it used to be.

When adjusted to 1999 dollars, California's minimum wage declined from a high of $8.07 in 1968 to a rate of $5.75 per hour today (Figure 1). This represents a decline in purchasing power of $2.32 or 29 percent. Even when you add in the federal Earned Income Tax Credit, a family of three with a full-time minimum wage worker only reaches 107 percent of the federal poverty level. In other words, the earnings from full-time work at California's minimum wage only allows such a family to reach a level of bare subsistence.

In October of this year, the Budget Project published **Making Ends Meet: How Much Does It Cost To Raise A Family In California.** The study assessed typical costs of raising a family in various regions of California, and the state as a whole. The basic family budget calculations -- and the discrepancy between these typical budgets and earnings from low-wage work -- can provide a foundation for your deliberations on the minimum wage.

The report found that, when one accounts for average housing, child care, transportation, food, health care, taxes, and miscellaneous costs in California, a single-parent, two child family needs an annual income of $36,828. This translates to an equivalent full-time wage rate of $17.71 per hour.

This is a state average; regional results may be more significant. In the Los Angeles region, where costs are close to the statewide average, the basic family budget for the family of three will require an annual income of $36,780, or full-time wages of $17.68. In the Orange-Ventura region the wage rate would be $19. In the San Francisco Bay area, the rate would be higher still, at $21.24.

These wage rates are sufficient to achieve a modest standard of living. They do not cover other expenses that often accompany middle-class expectations. For example, the estimates are based on rents, rather than costs of homeownership, and home-based child care, rather than higher cost center-based care. The basic family budget also fails to set aside funds for retirement planning or for a child's college education.

Still, we are not advocating a minimum wage of $17 or $19 or $21 dollars. The basic family budget wage is not a starting wage, and not a minimum wage.

Neither are we maintaining that it is impossible to raise a family on lower wages. Many families do get by on lower than basic family budget wages. They may be able to live on less because a large portion of their health care costs may be covered by their jobs. Or their child care costs may be offset by help from family members, or by state subsidies. Others may rely on public programs, including Food Stamps, Medi-Cal, or income supplements from CalWORKS. Others may go into debt, in effect mortgaging their future earnings.

The basic family budget standard is useful as a point of comparison. It illustrates the inadequacy of the current minimum wage. The single-parent, minimum wage earner will earn less than a third of the statewide basic family budget. When the federal EITC is added in, the family earns only 40 percent of the basic family budget (Figure 2).[1]

Impact on Wages

An examination of wage and employment trends in California reveals that the most recent minimum wage increases -- to $5.00 in March 1997, $5.15 in September 1997, and $5.75 in March of 1998 -- led to real wage gains for low-wage workers without significant employment losses.

Although the increases failed to fully recapture the purchasing power of earlier minimum wages, they did reverse a seven year period of decline. The result has been a real wage increase for California workers at the bottom of the earnings distribution (Figure 3).

Wages for workers at the 10th percentile fell 13.9 percent between 1989 and 1996. Between 1996 and 1998, however, wages at the 10th percentile rose 9.5 percent, from $5.26 to $5.76 per hour. It is no accident that the wage at the 10th percentile is nearly identical to the new minimum wage. As the minimum wage increased during 1997 and 1998, it pushed wages at or below the 10th percentile up along with it, providing a new floor for low wage workers.

Importantly, the minimum wage increases appear to have helped avert a repetition of what happened between 1980 and 1986. During that period, wages at the median and 90th percentiles rose steadily, but wages at the 10th percentile declined in concert with a declining minimum wage after adjusting for inflation.

Impact on Employment
Finally, on the question of whether increasing the minimum wage necessarily leads to job losses.

An examination of employment rates reveals that the minimum wage increases in California have been accompanied by **declining** rates of unemployment.

Most significantly, in the population of workers age 16-19 the unemployment rate has dropped by seven points, from 23.5 percent to 16.5 percent since 1996 (Figure 4). As reported by the Employment Development Department, unemployment rates have also dropped substantially for non-white workers, and for workers as a whole in California.

Concern has been raised that industries that are heavily dependent on low-wage workers -- particularly in retail trade and services -- could be forced by higher minimum wages to cut back on jobs. But again, the available data provides ground for more optimism. In retail trade employment has grown slowly, but steadily, since 1996, while employment in service industries has grown moderately.[2]

It is possible, in theory, to reconcile California's recent positive employment experience with the pessimistic projections of minimum wage critics. **But a more plausible interpretation is that economic growth has simply overwhelmed any employment effect caused by increases in the minimum wage in California.**

The finding that California's recent minimum wage increase 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 wages of 10 million workers with employment effects that were "statistically insignificant ... (and) almost as likely to be positive as negative."

At the state level, David Card and Alan Krueger, of Princeton University, found that the 1988 California minimum wage increase had a significant positive effect on wages and "little or no adverse employment effect."[3] 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."[4]

In June of this year, the Oregon Center for Public Policy found that the state'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."[5]

Conclusion
In conclusion, the weight of evidence supports two principle points.

First, California's minimum wage is inadequate to support typical, basic expenditures of families.

Second, moderate minimum wage increases may have little or no disemployment effects.

We look forward to assisting the Commission in deliberations over an appropriate minimum wage for California.

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[1] At 40 hours per week, 52 weeks per year, a minimum wage worker earns $11,960, or 32 percent of the state-wide family budget of $36,828. After accounting for taxes and factoring in the federal Earned Income Tax Credit, the minimum wage parent of two earns $14,801, or 40 percent of CBP's basic family budget.
[2] Retail trade grew by 5 percent over the period, while services grew by 14 percent.
[3] David Card and Alan Krueger, *Myth and Measurement: The New Economics of the Minimum Wage* (Princeton, New Jersey: Princeton University Press, 1995), p 110.
[4] 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*).*
[5] 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.