CALIFORNIA
▪ BUDGET PROJECT ▪

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QUESTIONS AND ANSWERS ON THE MINIMUM WAGE IN CALIFORNIA

Q: Does increasing the minimum wage raise wages?

After the 1996-1998 minimum wage increases in California, wages rose substantially for those at the bottom of the wage distribution. Wages for workers at the 10th percentile rose by 13 percent between 1996 and 1999, after adjusting for inflation. This more than offset an inflation-adjusted decline of five percent between 1994 and 1996. Low-end wages for Latinos, adults without a high school education, and teenagers -- groups who disproportionately work in low-wage jobs -- rose even more.[1]

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

Those in California working at or near the minimum wage are predominantly full-time workers (61 percent). Approximately one half (52 percent) are Latino, and one half (51 percent) work in the retail and manufacturing sectors. Contrary to commonly held notions, relatively few (18 percent) are teens.[2]

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 recent study by government economists estimates that over 8 percent of workers nationally spend at least half of their first 10 post-school years in jobs that pay within a dollar of the minimum wage.[3] That is about the same as the current portion of 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] Increases in the state and federal minimum wage from 1996-1998 brought the state's minimum

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[1] California Budget Project analysis of Current Population Survey Outgoing Rotation Files (several years).
[2] California Budget Project analysis of 1999 Current Population Survey Outgoing Rotation Files.
[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] The Economic Policy Institute estimates that 8.7 percent of current U.S. workers would be affected by a federal minimum wage increase of one dollar. Jared Bernstein and Chauna Brocht, *The New Minimum Wage Proposals and the Old Opposition* (Washington D.C.: Economic Policy Institute, 1999).
[5] See, for example, John Kennan, *The Elusive Effects of Minimum Wages* (Journal of Economic Literature, December 1995).

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wage sixty cents above the federally mandated level. Yet there is evidence that little, if any, job loss resulted. Data from this period do not demonstrate job loss among demographic groups with many low-wage workers or in low-wage industries.

If minimum wage increases cause job loss, one would expect employment growth to be slower for groups with more low-wage workers after an increase in the minimum wage. However, the opposite was true in California from 1996 to 1999, during and just after the recent minimum wage increases. The employment rate grew by 1.8 points more for Latinos, 6.5 points more for adults over 20 years old without a high school degree, and .4 points more for teenagers as compared to the overall growth rate of 3.0 points.[6]

Data for this period also suggest that the retail industry -- which employs over a third of workers earning near the minimum wage -- did not employ fewer people than it would have if the wage increases had not occurred. While previous research has often found evidence of job loss in the eating and drinking (restaurant) sector of the retail industry, CBP's analysis of the data from the most recent wage increases found the evidence to be inconsistent.[7]

Q: Do minimum wage increases benefit the poor?

One way to measure if minimum wage increases are well-targeted is to divide all California families by income into ten groups (deciles) and determine how many workers affected by minimum wage increases fall into each group. Since those in the bottom 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 recent minimum wage increases 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 "richest" deciles.[8]

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.[9]

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[6] Employment rate is measured as the percentage employed of those 16 years or older. California Budget Project analysis of Current Population Survey Outgoing Rotation Files (several years).
[7] Based on regression analysis of differences in employment trends and wages across counties over the time period 1994-1998. Wage levels were approximated for each low-wage industry by dividing the payroll levels reported in California Business Patterns and Covered Employment and Wage reports (ES-202) by the number of persons employed as reported by the Employment Development Department, a distinct reporting source.
[8] California Budget Project analysis of 1996 and 1998 March Current Population Survey data.
[9] See, for example, Mark Turner, *The Effects of Minimum Wages on Welfare Recipiency* (Joint Center for Poverty Research Working Paper 95, July 1999).