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MINIMUM WAGE INCREASES BRING REAL WAGE GAINS TO CALIFORNIA WORKERS

New research suggests that a higher minimum wage can have a positive impact on the earnings of low-wage workers, without a loss of jobs. Despite this positive effect, the minimum wage continues to provide an inadequate standard of living for California's low-wage workers.

Since 1996, California's minimum wage rate has been increased several times.¹ The state's Industrial Welfare Commission (IWC) increased the minimum wage from \$5.75 per hour to \$6.25 per hour on January 1, 2001, and again to \$6.75 per hour on January 1, 2002. California is one of 11 states with a minimum rate that is higher than the national minimum wage of \$5.15 per hour.²

This report examines the impact of the minimum wage on wage and employment trends. The evidence suggests that a higher minimum wage has increased earnings of workers at the lower end of the wage distribution, without undermining California's job growth. This finding is consistent with the experiences of other states, where moderate minimum wage hikes have not led to employment losses.

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.³ More importantly, the rate is insufficient for either a single person or a family dependent on minimum wage earnings to achieve a modest standard of living.

WHO BENEFITS FROM A HIGHER MINIMUM WAGE?

Approximately 1.5 million working Californians – over ten percent of the workforce – earned at or near the minimum wage, between \$6.25 and \$7.25 per hour, in 2001 (Table 1). Most of these workers received a pay raise that was directly attributable to the increased minimum wage on January 1, 2002.⁴ Most of the benefits of the increase in the minimum wage have gone to adults and full-time workers, and have been especially important for California's Latino and female workers.

- Nearly three out of five low-wage workers (57.5 percent) were 25 years of age or older in 2001; while 22.4 percent were between ages 20 and 24.
- In 2001, a majority of low-wage workers (55.7 percent) worked full time; of part-time low-wage workers, most (72.6 percent) worked at least 20 hours per week.
- While Latinos accounted for 29.8 percent of all California workers in 2001, 52.9 percent of workers with low wages in 2001 were Latino.
- Similarly, women made up 46.2 percent of California's 2001 workforce. However, 55.4 percent of low-wage workers were women.

**Table 1: Characteristics Of California's
Low-Wage Workers, 2001**

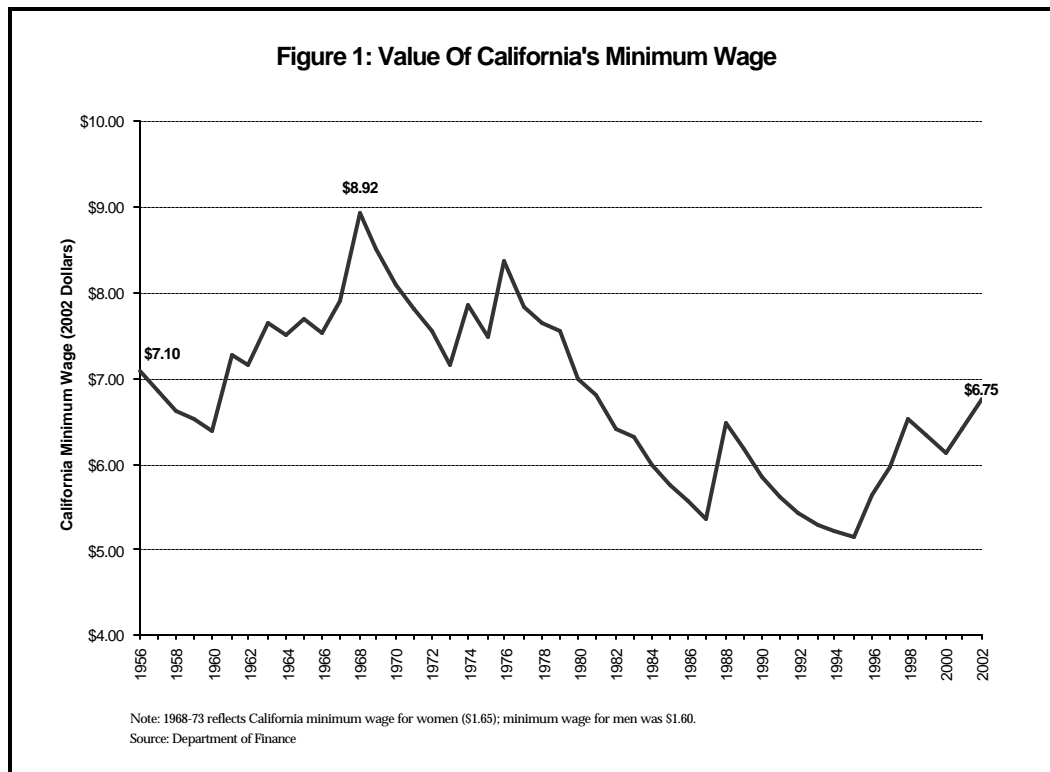
Worker Characteristics	Low-Wage Workers	All Workers
Employment	1,504,177	14,196,179
Share of Total	10.6%	100%
Age		
16 to 19	20.1%	5.4%
20 to 24	22.4%	11.8%
25 to 64	57.5%	82.8%
Gender		
Male	44.6%	53.8%
Female	55.4%	46.2%
Race		
White	33.6%	51.3%
Black	*	6.3%
Latino	52.7%	29.8%
Asian and Other	*	12.6%
Gender by Race		
Female		
White	37.8%	52.9%
Black	*	6.7%
Latino	47.1%	27.3%
Asian and Other	*	13.1%
Male		
White	28.3%	49.9%
Black	*	6.0%
Latino	59.6%	31.9%
Asian and Other	*	12.2%
Hours of Work		
Full-time (35+ hours)	55.7%	81.8%
Part-time		
20-34 hours	32.1%	13.0%
1-19 hours	12.1%	5.1%

Note: Includes working population ages 16 to 64. Low-wage workers are those with an hourly wage between \$6.25 and \$7.25. Data not reported for certain sub-populations due to insufficient sample size.

Source: CBP analysis of Current Population Survey data

ADEQUACY OF CALIFORNIA'S MINIMUM WAGE

The purchasing power of California's minimum wage has declined from \$8.92 in 1968 to \$6.75 today, a drop of 24.3 percent in 2002 dollars (Figure 1). Even with the addition of the federal Earned Income Tax Credit (EITC), a family of three supported by a full-time minimum wage worker earned only somewhat more than the federal poverty level.⁵



Four decades ago, to aid its consideration of an appropriate minimum wage, the IWC developed an annual budget sufficient to “permit a working woman, entirely dependent on her own resources and supporting no dependents, to maintain a minimum but adequate mode of living.”⁶ The “Budget For A Self-Supporting Working Woman” — in later years called “Minnie’s Budget” — was estimated at \$2,855 in 1961 dollars. This translated into an hourly wage of \$1.40, or \$8.84 in 2002 dollars.⁷

Minnie’s Budget was developed at a time when the state minimum wage applied only to women and minor children and used a different market basket of goods than would be found in a modern budget.⁸ In *Making Ends Meet: How Much Does It Cost To Raise A Family In California?*, the California Budget Project (CBP) constructs a basic family budget for a modern California worker (Table 2). A single full-time worker needs to earn \$9.86 per hour, assuming 52 weeks of work per year at 40 hours per week, to achieve a modest standard of living in California.⁹ A single parent supporting two children would need an annual income of \$43,443 to live moderately well in California, equivalent to a full-time hourly wage of \$20.89.¹⁰

While \$20.89 per hour is not a starting wage – and this report does not advocate it as a new state minimum wage – it does serve to highlight the gap between an adequate family wage and today’s minimum wage rate of \$6.75 per hour. For example, a single-parent minimum wage earner working full time, year-round in 2001 earned less than one-third of the annual statewide basic family budget for a family of three. When the federal EITC is included, the family’s income equals less than 40 percent of the basic family budget.

Table 2: How Much Does It Cost To Raise A Family In California?

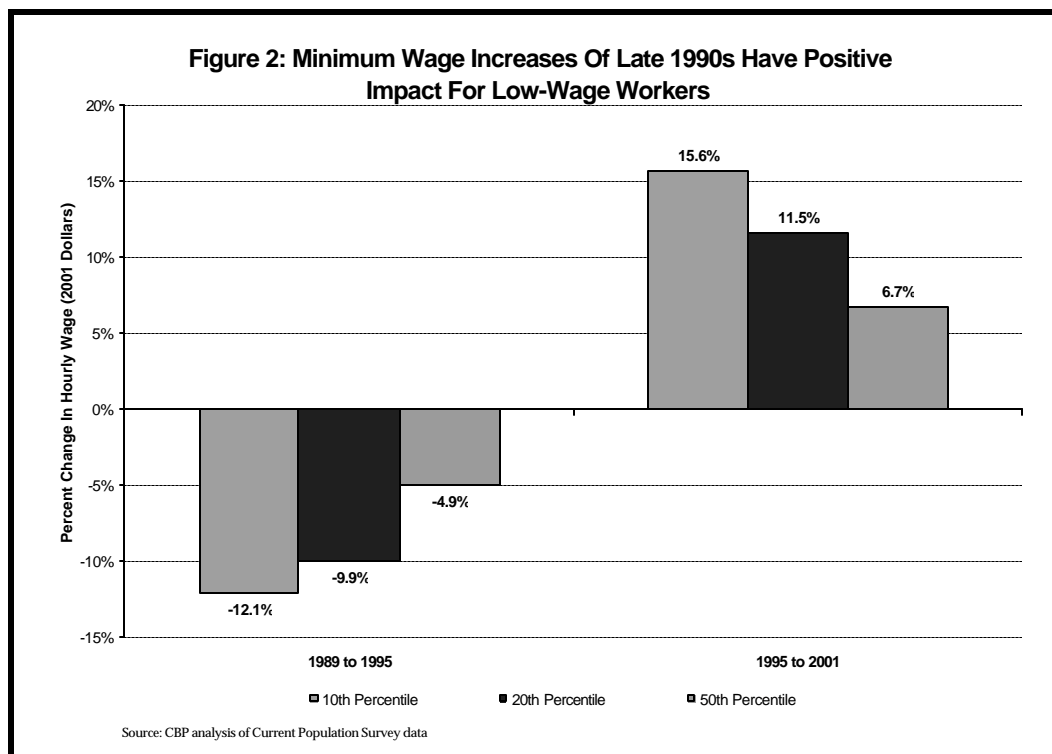
	Basic Family Hourly Wage*			
Single Adult	\$ 9.86			
Single-Parent Family	\$20.89			
Two-Parent Family (One Working)	\$17.43			
Two Working Parent Family	\$12.51			
Expenses Per Month And As A Percent Of Income				
	Single Adult	Single Parent	Two Parents (One Working)	Two Working Parents
Housing/Utilities	\$594	\$867	\$867	\$867
	34.8%	23.9%	28.7%	20.0%
Child Care	\$0	\$859	\$0	\$859
		23.7%		19.8%
Transportation	\$274	\$274	\$274	\$494
	16.1%	7.6%	9.1%	11.4%
Food	\$182	\$445	\$638	\$638
	10.6%	12.3%	21.1%	14.7%
Health Care	\$146	\$347	\$416	\$416
	8.5%	9.6%	13.8%	9.6%
Miscellaneous	\$179	\$341	\$429	\$429
	10.5%	9.4%	14.2%	9.9%
Taxes	\$334	\$487	\$396	\$634
	19.5%	13.5%	13.1%	14.6%
MONTHLY TOTAL	\$1,709	\$3,620	\$3,020	\$4,336
ANNUAL TOTAL	\$20,503	\$43,443	\$36,245	\$52,034

* Assumes: 40 hours per week, 52 weeks per year of work; families include two children; and both parents in two working parent families are employed full time.
Source: CBP, *Making Ends Meet: How Much Does It Cost To Raise A Family In California?* (September 2001)

IMPACT ON WAGES

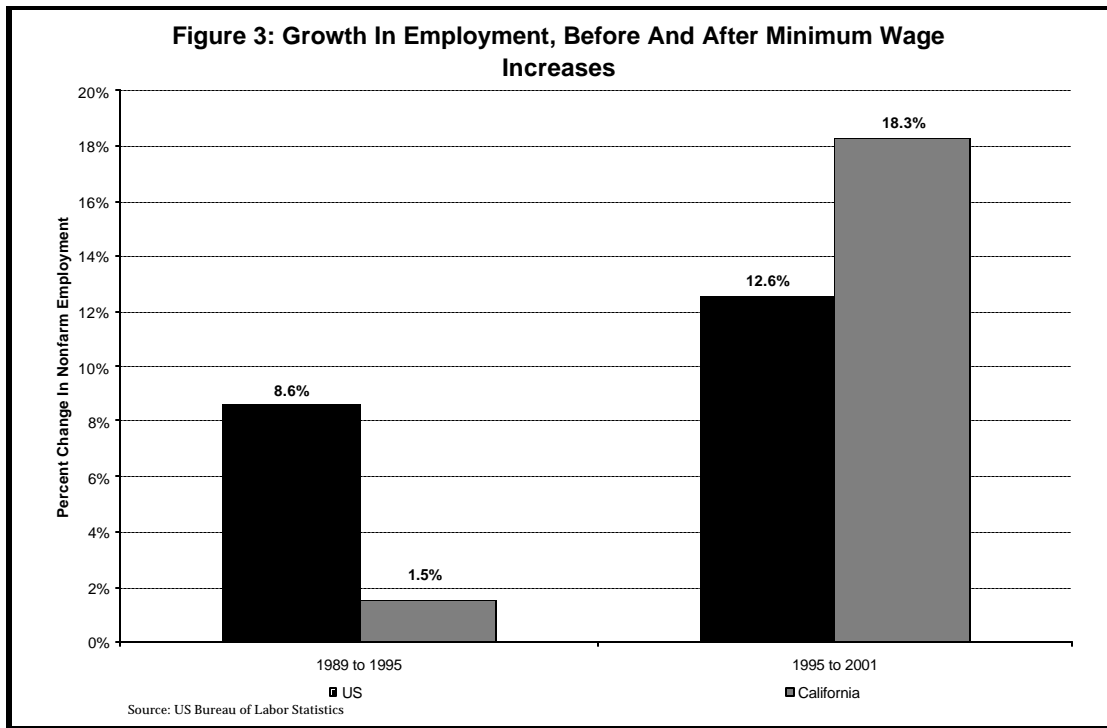
An examination of wage and employment trends in California suggests that minimum wage increases have led to real wage gains for low-wage workers, without significant employment losses.

Hourly wages for workers at the 10th percentile fell over 12 percent between 1989 and 1995, after adjusting for inflation (Figure 2). Minimum wage increases in 1996, 1997, 1998, and 2001 pushed up wages at or below the 10th percentile, providing a new floor for low-wage workers. Wages at the 10th percentile rose 15.6 percent, from \$6.06 to \$7.00 per hour, from 1995 to 2001 after adjusting for inflation.¹¹ In fact, wage gains for the state's lowest paid workers actually exceeded those of higher paid workers between 1995 and 2001, helping those workers to make up for ground lost in previous years.



IMPACT ON EMPLOYMENT

Critics of increasing the minimum wage argue that increases result in large employment losses. However, data from the US Bureau of Labor Statistics show a 2.3 million *increase* in the number of people employed in California from 1995 to 2001, the period covered by California's minimum wage increases. A comparison of data for the US and California shows that despite California's higher minimum wage and more frequent increases in the minimum wage, the state experienced greater employment growth (18.3 percent) than the nation as a whole (12.6 percent) during this period (Figure 3).



Of course, the issue is not settled by demonstrating that employment rose when the minimum wage was increased. The late 1990s were years of great economic growth for the state, particularly within the high technology sector. A question remains whether, in the absence of minimum wage increases, employment growth would have been even greater. What is clear, however, is that increases in the minimum wage did not prevent overall economic growth. Moreover, research conducted for the CBP examining the impact of the 1996 and 1997 increases in the minimum wage rate found that workers who disproportionately work for low wages were not harmed by minimum wage increases.¹²

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 (Table 3). However, retail trade employment has grown steadily from 1995 to 2001, while employment in service industries has experienced even stronger employment growth (Table 4). Furthermore, despite the economic downturn California has experienced in 2002, employment in the retail trade industry has continued to grow 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.¹³

Table 3: Employment Distribution By Industry, 2001		
Industry	Low-Wage Workers*	All Workers
Agriculture, Forestry And Fisheries	7.5%	2.4%
Manufacturing	11.4%	14.4%
Retail Trade	40.4%	17.1%
Services	29.2%	38.0%
Other	11.4%	27.9%

* Low-wage workers include those ages 16 to 64 who make between \$6.25 to \$7.25 per hour.

Source: CBP analysis of Current Population Survey data

Table 4: Change In Employment By Industry		
Industry	1989 to 1995	1995 to 2001
Total Nonfarm	1.5%	18.3%
Mining	-19.6%	-19.7%
Construction	-13.3%	58.1%
Manufacturing	-14.8%	6.1%
Durable Goods	-22.5%	10.1%
Non-Durable Goods	0.5%	0.1%
Transportation and Public Utilities	5.3%	19.1%
Trade	-1.3%	14.4%
Wholesale	-4.4%	12.0%
Retail	-0.2%	15.2%
Finance, Insurance and Real Estate	-7.2%	15.2%
Services	16.7%	25.7%
Government	5.4%	13.1%

Source: Employment Development Department

CONCLUSION

In conclusion, the weight of evidence supports three principal points about the minimum wage and California workers:

- California's current minimum wage is inadequate to support a minimal standard of living for a family or individual;
- Moderate increases in the minimum wage have been effective at raising wages of working families at the bottom of the wage distribution; and
- Moderate minimum wage increases may have little or no negative impact on employment.

Deana Carrillo updated this Brief based on research by Dan Galpern. 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. Publication of this Brief was supported by a grant from the Rosenberg Foundation. Support for the CBP comes from foundation grants, publications, and individual contributions.

ENDNOTES

¹ California's minimum wage was increased as a result of a two-step increase required by federal law, a two-step increase pursuant to a state statutory initiative (Proposition 210), and a two-step increase pursuant to administrative action by the state's Industrial Welfare Commission. The minimum wage increased from \$4.25 to \$4.75 on October 1, 1996, pursuant to federal law; to \$5.00 on March 1, 1997, pursuant to state law; to \$5.15 on September 1, 1997, pursuant to federal law; and to \$5.75 on March 1, 1998, pursuant to state law. The Industrial Welfare Commission (IWC) raised the state minimum wage to \$6.25 per hour on January 1, 2001 and to \$6.75 per hour on January 1, 2002. Whenever federal and state minimum wage requirements differ, employers are required to provide the higher wage and broader coverage.

² Massachusetts and Washington have rates equal to or higher than California's. Two additional states have scheduled increases that will result in minimum wages higher than California's: Alaska will increase its minimum wage rate to \$7.15 in January 2003, and Connecticut has a pending two-stage increase to \$6.90 in January 2003, and to \$7.10 in January 2004. States with higher-than-federal minimum rates include Alaska (\$5.65), California (\$6.75), Connecticut (\$6.70), Delaware (\$6.15), Hawaii (\$5.75, to increase to \$6.25 on January 1, 2003), Maine (\$5.75, to increase to \$6.25 on January 1, 2003), Massachusetts (\$6.75), Oregon (\$6.50), Rhode Island (\$6.15), Vermont (\$6.25), and Washington (\$6.90). In addition, the District of Columbia's minimum wage rate is automatically set at \$1.00 above the federal rate (\$6.15). US Department of Labor, unpublished data, received August 30, 2002.

³ 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).

⁴ The minimum wage law covers most employees in California. Exceptions include state, county, and municipal employees, outside salespersons, and any employee who is the parent, spouse, or child of his or her employer. In addition, with certain restrictions Wage Orders of the Industrial Welfare Commission permit sub-minimum wages (85 percent of the minimum wage) for "learners" (newly employed workers with little experience) and to minors. Industrial Welfare Commission, MW-98 and Section 4 of IWC Wage Orders 1-15.

⁵ The EITC is a refundable federal tax credit that provides assistance to low-income families that have income from work. Including the EITC, a single parent working 40 hours a week, 52 weeks a year at the minimum wage, will have an income of only 117 percent of the federal poverty level for a family of three. This calculation incorporates 2001 tax and poverty levels and the 2002 minimum wage rate.

⁶ California Industrial Welfare Commission, *Budget for a Self-Supporting Working Woman* (June 1961). Also, see California Industrial Welfare Commission, *Historical Review of Minimum Wage Issues* (January 1985).

⁷ Based on 51 weeks of work at 40 hours per week.

⁸ The California Labor Code was amended in 1972 to include men under the Industrial Welfare Commission Wage and Hours Orders.

⁹ The CBP's estimated budget assumes that the single worker rents a studio apartment and spends half the US average on transportation and miscellaneous items.

¹⁰ California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise A Family In California?* (September 2001). The numbers are based on statewide costs. Hourly wages reported here are based on 40 hours per week, 52 weeks per year of work.

¹¹ CBP analysis of Current Population Survey data.

¹² David Carroll, *Should California Adopt A Higher Minimum Wage?* (Goldman School of Public Policy, University of California, Berkeley: May 5, 2000), pp. 39-42.

¹³ 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).