

## MINIMUM WAGE INCREASES BOOST THE EARNINGS OF LOW-WAGE CALIFORNIA WORKERS

California's 1.4 million workers who earn at or near the minimum wage are predominantly adults working full-time, and the majority are Latino. Since 1996, when the first of a series of actions raised the state and federal minimum wage, the hourly earnings of low-wage California workers have risen substantially. However, the purchasing power of the minimum wage is 33.1 percent lower today than it was in 1968 and provides less income than would be needed to support a single adult, much less a family. Contrary to the predictions of critics, recent increases in the state's minimum wage do not appear to be associated with a loss of jobs in low-wage industries, such as food service and retail.

### A Majority of Low-Wage Workers Are Adults and Work Full-Time

In 2004, over 1.4 million workers in California, or about one in every 10, earned within one dollar per hour of the state's minimum wage.<sup>1</sup> Almost six out of 10 (59.7 percent) low-wage workers were 25 years old or older, while only about one out of six (16.8 percent) were teens (Table 1). A full 59.1 percent of California's low-wage workers worked full-time. In fact, a majority of low-wage workers were adults who worked full-time: 56.3 percent were age 20 or over and worked at least 35 hours per week. More than half (57.1 percent) of low-wage workers were Latino. In contrast, Latinos accounted for 32.1 percent of all California workers. Low-wage workers were disproportionately employed in the leisure and hospitality industry and in wholesale and retail trade.

### A Rising Minimum Wage Appears to Contribute to Rising Earnings

The hourly wages of those at the bottom of the earnings distribution have risen substantially since 1996, when the first of a series of actions raised the state and federal minimum wage.<sup>2</sup> Between 1996 and 2004, the inflation-adjusted hourly

Table 1: Characteristics of California's Low-Wage Workers (2004)

|                                       | Low-Wage Workers | All Workers |
|---------------------------------------|------------------|-------------|
| Age                                   |                  |             |
| 16 to 19                              | 16.8%            | 4.2%        |
| 20 to 24                              | 23.5%            | 11.6%       |
| 25 to 64                              | 59.7%            | 84.2%       |
| Gender                                |                  |             |
| Male                                  | 50.4%            | 53.8%       |
| Female                                | 49.6%            | 46.2%       |
| Race                                  |                  |             |
| Latino                                | 57.1%            | 32.1%       |
| White                                 | 26.5%            | 47.2%       |
| Other                                 | 16.4%            | 20.7%       |
| Hours of Work                         |                  |             |
| Full-time (35 or more hours per week) | 59.1%            | 82.0%       |
| Part-time                             |                  |             |
| 20 to 34 hours per week               | 28.1%            | 13.1%       |
| 1 to 19 hours per week                | 12.8%            | 4.9%        |
| Industry                              |                  |             |
| Educational and Health Services       | 10.0%            | 20.2%       |
| Leisure and Hospitality               | 25.5%            | 8.7%        |
| Manufacturing                         | 11.2%            | 11.9%       |
| Wholesale and Retail Trade            | 22.2%            | 14.8%       |
| All Others                            | 31.1%            | 44.4%       |

Note: Includes working population age 16 to 64. Low-wage workers are those with an hourly wage between \$6.75 and \$7.74 per hour.

Source: CBP analysis of Current Population Survey data

**Table 2: Hourly Wages of California Workers (2004 Dollars)**

|                             | 1990    | 1996    | 2004    | Percentage Change<br>1990 to<br>1996 | Percentage Change<br>1996 to<br>2004 |
|-----------------------------|---------|---------|---------|--------------------------------------|--------------------------------------|
| 10 <sup>th</sup> Percentile | \$6.87  | \$6.22  | \$7.00  | -9.5%                                | 12.6%                                |
| 20 <sup>th</sup> Percentile | \$8.43  | \$7.77  | \$8.50  | -7.9%                                | 9.4%                                 |
| Median                      | \$14.47 | \$13.95 | \$15.00 | -3.6%                                | 7.5%                                 |

Note: Includes working population ages 16 to 64.  
Source: CBP analysis of Current Population Survey data

earnings of the California workers at the 10<sup>th</sup> and 20<sup>th</sup> percentiles of the earnings distribution increased, as did those of the median worker, the worker at the middle of the earnings distribution (Table 2). However, the earnings of the worker at the 10<sup>th</sup> percentile of the earnings distribution rose by a larger percentage (12.6 percent) than those of the worker at the 20<sup>th</sup> percentile (9.4 percent), and the earnings of the worker at the 20<sup>th</sup> percentile increased by a larger percentage than those of the worker at the median (7.5 percent).

Between 1990 and 1996 – when the minimum wage was not increased – the opposite took place. The inflation-adjusted hourly earnings of California workers at the 10<sup>th</sup> and 20<sup>th</sup> percentiles of the earnings distribution fell, as did those of the median worker.

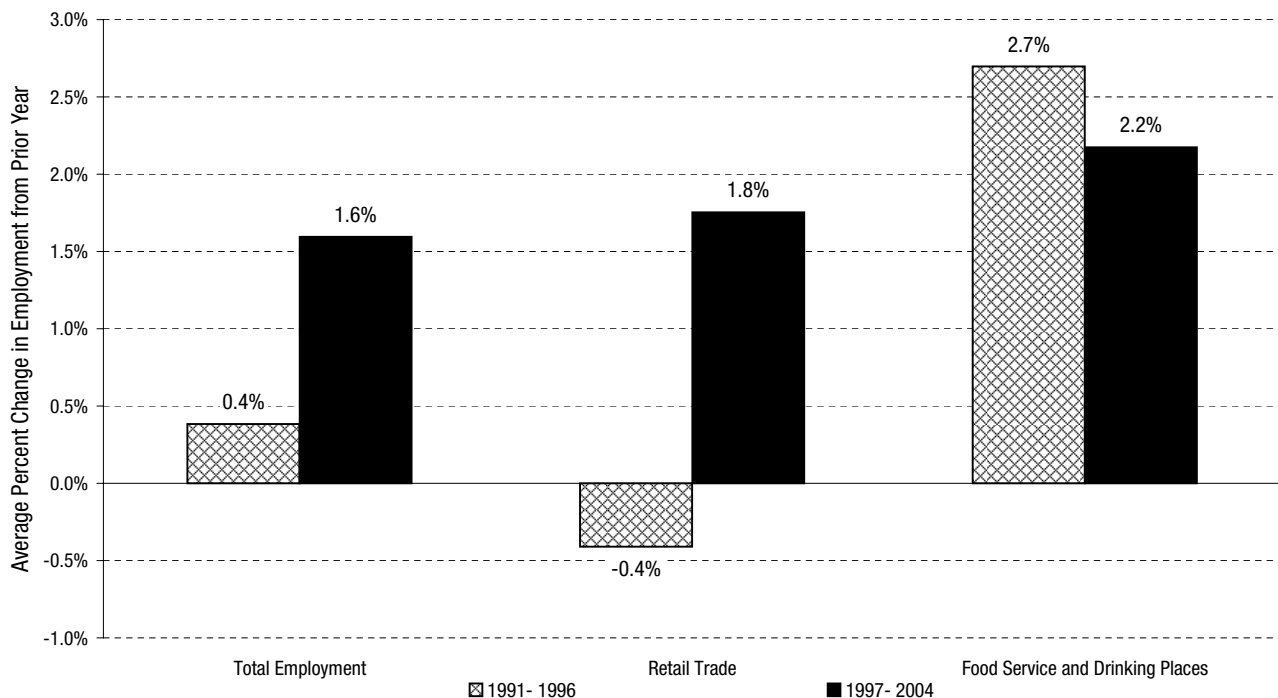
However, the earnings of the worker at the 10<sup>th</sup> percentile fell by a larger percentage (9.5 percent) than those of the worker at the 20<sup>th</sup> percentile (7.9 percent), and the earnings of the worker at the 20<sup>th</sup> percentile fell by a greater percentage than those of the worker at the median (3.6 percent).

Since a minimum wage hike is targeted toward the hourly earnings of workers at the bottom of the earnings distribution, a rise in the minimum wage is more likely to affect the earnings of low-wage workers than it is likely to affect the wages of the worker at the middle or high end of the earnings distribution. Nevertheless, an increase to the minimum wage also affects the hourly wages of workers earning more than the minimum wage, since employers tend to increase the wages of workers just above the minimum wage to maintain pay differentials based on experience or other factors.

## Moderate Increases to the Minimum Wage Do Not Appear to Contribute to Job Losses

Mounting evidence suggests that moderate increases to the minimum wage result in little, if any, loss of employment.<sup>3</sup> Critics still argue, however, that a higher minimum wage would force industries that depend heavily on low-wage workers, such as restaurants and retail trade, to reduce employment. An analysis

**Figure 1: Since the Recent Minimum Wage Hikes, Growth in Food Service and Retail Employment Has Exceeded Growth in Total Employment**



Source: Employment Development Department

of California employment data before and after state and federal actions increased California's minimum wage fails to support the critics' argument. Between 1997 and 2004, during and subsequent to recent increases in the state's minimum wage, average annual growth in employment in both food service and drinking places and retail trade, sectors that employ disproportionate shares of very low-wage workers, outpaced the average annual increase in total employment (Figure 1). Between 1991 and 1996, a period when the minimum wage was unchanged, average annual growth in food service and drinking places employment also outpaced the average annual percentage increase in total employment. However, the average annual increase in retail trade employment lagged the average annual increase in total employment.<sup>4</sup>

## The Purchasing Power of California's Minimum Wage Has Declined Over Time

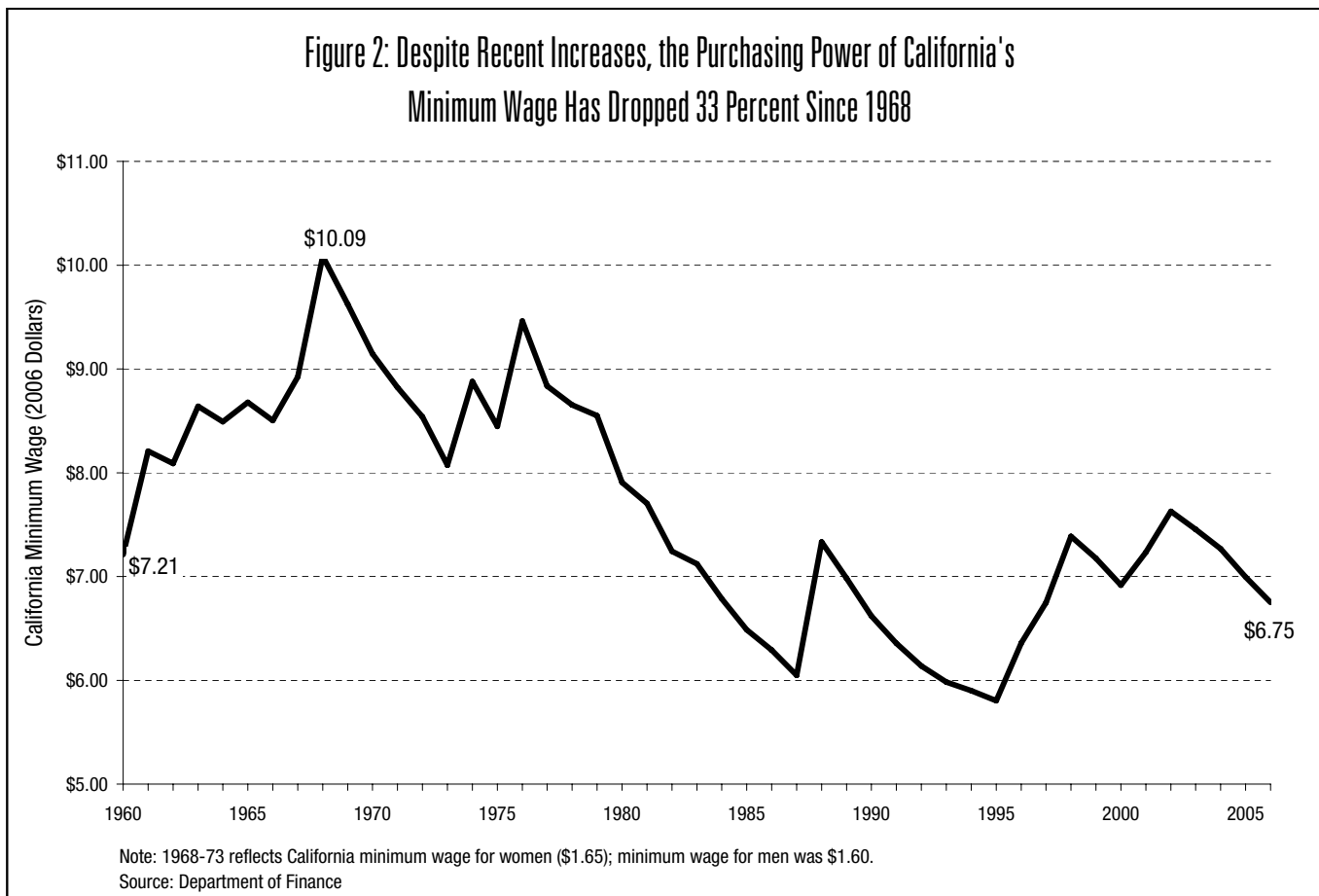
While recent state and federal actions have partly reversed the erosion in the purchasing power of California's minimum wage, the inflation-adjusted value of the minimum wage remains 33.1 percent lower than in 1968 (Figure 2). Since 2002, the purchasing power of the state's minimum wage has dropped \$0.88, an 11.5 percent decline. Absent state action, its value will continue to deteriorate.

Four decades ago, California's Industrial Welfare Commission 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."<sup>5</sup> The "Budget for a Self-Supporting Working Woman" – called "Minnie's Budget" in later years – was estimated at \$2,855 in 1961 dollars, equivalent to an hourly wage of \$1.37 for full-time, full-year work. This equates to an hourly wage of \$9.78 in 2006 dollars, well above the state's minimum wage.

The California Budget Project estimated a "basic family budget" for the state as a whole and for ten regions within the state.<sup>6</sup> This report estimates that a full-time, full-year single adult needs to earn \$12.44 per hour to cover the cost of basic necessities in 2005. A single parent with two children needs to earn \$25.96 per hour to make ends meet. While \$25.96 is not a starting wage, it does highlight the disparity between California's minimum wage of \$6.75 per hour and the earnings needed to support a family. Even the \$12.44 per hour needed to support a single adult is far higher than the minimum wage.

## Conclusion

The weight of the evidence supports three main conclusions about the minimum wage and California workers:



- First, California's current minimum wage is inadequate to support a single adult, much less a family.
- Second, moderately increasing the minimum wage has been an effective tool for raising the earnings of the state's low-wage workers.
- Third, moderate minimum wage increases do not appear to be associated with job loss in industries that employ large shares of low-wage workers.

*Alissa Anderson Garcia prepared this Budget Brief. 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. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at [www.cbp.org](http://www.cbp.org).*

## ENDNOTES

- <sup>1</sup> Includes working population age 16 to 64 earning an hourly wage between \$6.75 and \$7.74.
- <sup>2</sup> Between 1996 and 1998, California's minimum wage was raised as a result of a two-step increase required by federal law and a separate two-step increase pursuant to a voter-approved initiative (Proposition 210 of 1996). The minimum wage increased from \$4.25 to \$4.75 in October 1996 pursuant to federal law and to \$5.75 in March 1998 pursuant to state law. The California Industrial Welfare Commission (IWC) raised the minimum wage from \$5.75 to \$6.25 per hour in January 2001 and again to its current level of \$6.75 per hour in January 2002.
- <sup>3</sup> For a recent review of this literature, see Jeff Chapman, *Employment and the Minimum Wage: Evidence from Recent State Labor Market Trends* (Economic Policy Institute: May 11, 2004), pp. 13-16.
- <sup>4</sup> 1990 is the earliest year for which the Employment Development Department publishes industry-based data using North American Industrial Classification System (NAICS) codes comparable to those used for later years.
- <sup>5</sup> California Industrial Welfare Commission, *Budget for a Self-Supporting Working Woman* (June 1961). See also, California Industrial Welfare Commission, *Historical Review of Minimum Wage Issues* (January 1985).
- <sup>6</sup> California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?* (November 2005).