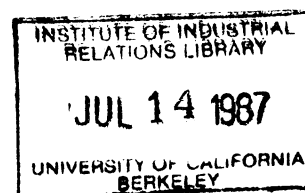


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The California Minimum Wage

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1987



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## I. Purpose of the Minimum Wage

The Federal minimum wage was created by the 1938 Fair Labor Standards Act. The minimum wage was intended to provide "the minimum standard of living necessary for health, efficiency and general well-being of workers..." At the time, there were widespread labor conditions that were detrimental to such a standard. It was acknowledged that the private market could not guarantee a living wage, that intervention was required to prevent immiseration. In order to increase employment, The FLSA required an overtime penalty. The wage floor was also seen as helpful in preventing unfair competition based on detrimental labor conditions. Low wages can result from conditions of over-supply in the labor market, there is no market mechanism that will guarantee a wage sufficient for self-support. Human labor cannot be treated like other goods and traded at the smallest cost.

California's original minimum wage laws were written for women and minors. Such laws were considered to be in violation of the 1964 Civil Rights Act. In 1970, Californians voted to amend the state law and have it cover both men and women. To date there has been no effort to assess the adequacy of the minimum wage for single male earners. The Industrial Wage Commission (IWC) has made estimates of a wage adequate for the maintenance of single full-time female earners, based on the Budget for a Self-Supporting Working Woman Last computed in 1961, this budget was intended to set a standard that allowed the full-time single woman worker "a decent healthful living at low cost." The state law currently (as amended in 1970) requires that the Industrial Welfare Commission set a minimum wage adequate to "supply the necessary cost of proper living to, and maintain the health and welfare of employees in this state." The inadequacy of the current minimum is discussed in sections III IV and V below.

## **II. Benefits**

The minimum wage helps the poor by requiring higher wages, helps the taxpayer by reducing the need for public assistance and helps everyone by increasing demand for consumer goods and services which contributes to a rise in employment.

Studies have found that raising the minimum wage does reduce the poverty level. Because the demand for labor is inelastic, wage hikes do increase the income of minimum wage workers even where hours worked may be reduced. With fewer people in poverty, demand for public assistance is effectively reduced. The resulting reduction in expenditures permits either lower taxes or more appropriate funding of programs for the less advantaged. Savings could be used to subsidize more education and training or subsidized employment for disadvantaged job-seekers.

## **III. Adequacy**

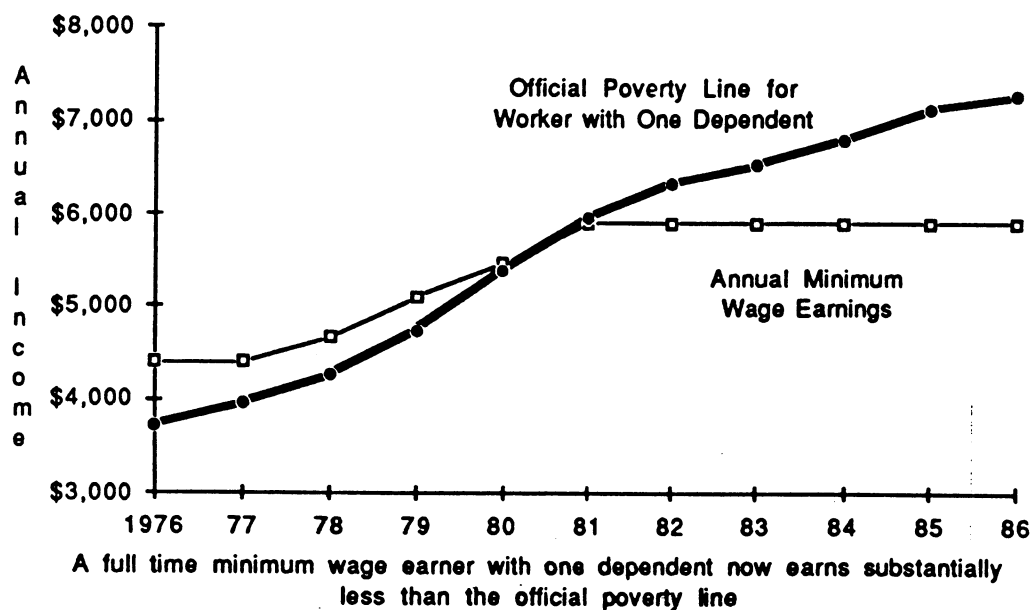
**The Minimum Wage and the Poverty Line.** For the past 25 years the minimum wage has provided annual earnings (based of a 40 hour week and 51 weeks of work) below the poverty line for a family of four. Today, the minimum of \$3.35 an hour allow an annual income for the full-time worker of \$6,834, or \$570 a month. The 1984 poverty line for one person was \$5,400 and for two people it was \$6,762. For four persons the poverty line was \$10,609. A woman with a dependent child

who earned only the minimum and worked full-time would be below the official poverty line, after taxes. (see the table below).

**Coverage.** We need to be concerned not just with the level of the minimum, but also with coverage and enforcement in the state. The Federal Minimum Wage covers only those who work in firms with annual revenues above \$362,000 (as of Dec., 1981). Many low-wage workers are exempt from coverage (especially in small retail). Students, with authorization, can be employed at less than the minimum and waivers are available for children in agriculture. However, as a result of the 1979 amendment, coverage is about 92%.

State coverage exceeds even the 1979 federal amendments. This is one reason why the state law is important, without it some people would not be guaranteed any minimum wage. The minimum wage provisions of the California Labor Code apply to all men, women and minors in any occupation, trade or industry, with the following exceptions: (1) outside salesmen; (2) Student employees, camp counselors and program directors - who shall be paid at least 85% of the minimum (\$2.85 an hour, currently); (3) Employers of the mentally or physically handicapped may be granted special exemptions (with the IWC setting a wage); (4) apprentices may be exempted. However, there is a great difference between what is legal and what is practiced. National studies indicate that lax enforcement has lead to widespread violations.

**A Single Working Parent Falls into Poverty**



#### IV. The Working Poor: A Profile of the Minimum Wage Labor Force

The Working Poor. The State Office of Economic Opportunity, in its 1983-84 Report, states that 6 out ten poor persons are earning an income through work. Many families are poor because the working members earn less than the poverty threshold (this is partly due to the minimum being so low and partly due to a lack of enforcement of the minimum). The working poor include women, nonwhites and the elderly and are largely employed in retail and service industries.

In 1984, there were 3,612,000 people in California in poverty, an increase of 1,225,000 since 1979. The poverty rate went from 10.6% to 14.2%. Minority groups are heavily over-represented in the ranks of the poor. While 8.4% of the white population was in poverty in 1984, the poverty rate for blacks was 23.8% and for Hispanics 23.0%

The U.S. Minimum Wage Commission issued a comprehensive report on minimum wage earners in 1981. Below are some of the Commission's findings. In 1980, 63% of those who earned at the minimum or lower were women, most of them 25-64 years old. 70% of all minimum wage workers are adults (aged 20 and over). 18% of all working women and 8% of all working men earned the minimum wage or less with most of the men and one-half of the women full-time workers. 25% of all minimum wage (and under) workers are heads of household. 11% of the minimum wage (and under) workers were in families with incomes below the poverty line and another 6% were in families near the poverty line.

Less than one half of the poor are dependent upon government transfer payments such as AFDC, SSI and Social Security. Only 31.6% of the state's poverty

families receive public assistance. Most households in poverty have one or more members working, they simply do not earn enough to raise themselves out of poverty. This poverty population faces hunger, malnutrition, sub-standard housing (if not homelessness) and poor medical service. It is well recognized that for many of the poor, employment is not a way out of poverty because of low wages - so low wages are a major reason for poverty in California. Higher earned income will lift many out of poverty. While it is more typical for women and youth to hold low-paying jobs, there are many male heads of household who earn too little to place their families above the poverty line.

Allowing sub-standard wages is a direct contradiction of the often stated goal of reducing poverty in this land. Work at low wages increases the public burden: more must be paid out in AFDC, General Assistance, and Medi-Cal.

The Feminization of Poverty. Female headed households are becoming increasingly common, and are a major part of poverty today. Since 1979, there has been a dramatic increase in the number of female headed households in California in poverty. The percentage of female headed households in poverty rose from 31.2 in 1979 to 40.9 in 1984 (this is well above the national increase). The number of such households rose 65,000. This is a large part of the reason for the tremendous rise in the number of children in poverty. There were 1,564,000 children in poverty in 1984, a rise of 618,000 in only five years.

In California, an AFDC grant plus a food stamp allocation provides benefits worth \$621 a month for a household of two (generally a mother and young child) (in 1985, for 1986 it is 5.1% higher). This is more than such a household could earn at the current minimum. The California Commission on State Finance has



set the annual budget of a low-income consumer with no dependents at \$7,683.82, well above the full-time annual earnings possible at the minimum wage. The state's new workfare law requires a wage of \$5.09 be paid to participants, in obvious recognition of the inadequacy of the current minimum wage. We need to provide a safety net for single women with dependent children. Often, the low wages earned by women are the result of discrimination. A low minimum wage not only helps to perpetuate discrimination by gender, race and ethnicity, but directly contributes to income inequality based on gender, race and ethnicity.

## V. Revising the Minimum Wage: Estimates for an Adequate 1986 Wage

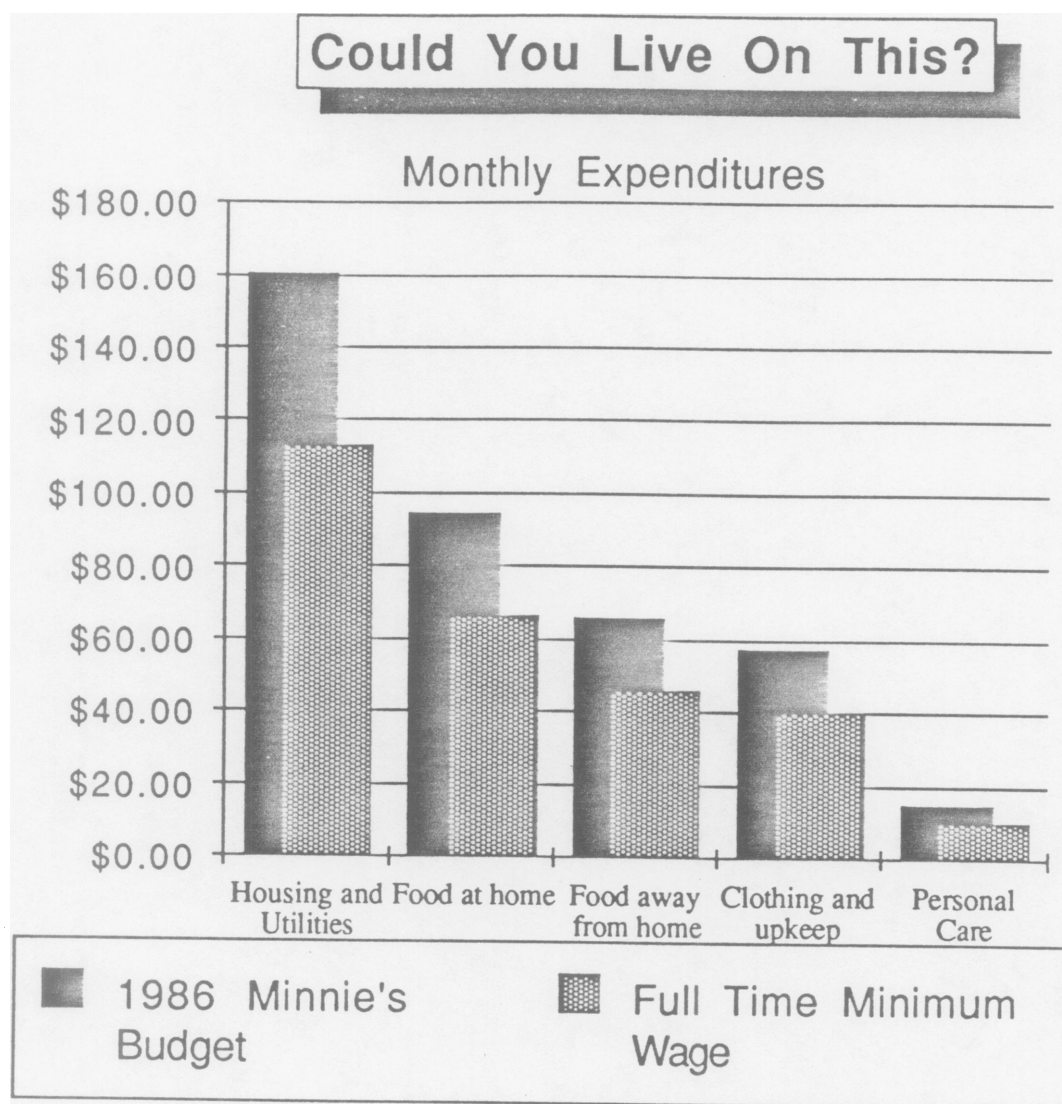
The current minimum wage of \$3.35 an hour represents a considerable fall in the purchasing power of the minimum wage just since it was last changed in 1981. However, even in 1981 the minimum was too low by any accepted standard of an adequate wage for a self-supporting individual. Below, in Table 1, are several estimates made for the California Labor Federation to adjust the minimum wage to an adequate standard. Under current state law, it would be inappropriate to base the minimum wage on a standard budget for a single female. However, the old Minnie budget is useful for comparison to other yardsticks. There is only thirty-eight cents difference between the highest and lowest of the estimates. While none of the above estimates are perfect, all indicate that the current minimum is too low and this conclusion is supported by common sense when we look at what the detailed Minnie budget would buy in 1986 (see the table below). Where would a Bay Area resident find a place to stay for only \$160 per month (rent and utilities). The Minnie budget does not permit a telephone, a wristwatch, dinner out, or a drink or going to a movie. This only serves to highlight the inadequacy of the actual minimum wage which would allow only \$127 per month for rent and utilities. \$4.93 an hour is not a generous wage, \$3.35 an hour is condemnation to misery for the self-supporting individual. It is easy to understand why working people are being forced to live in cars and wash in public restrooms and to pick food out of trashcans.

TABLE 1

WAGE	SOURCE OF ESTIMATE
\$5.25	The 1961 "Minnie" wage adjusted by the California CPI
\$4.97	The 1961 "Minnie" wage after adjusting detailed items in the Minnie budget using CPI data for California
\$5.12	50% of the Average Manufacturing Wage in California
\$5.31	The 1968 minimum wage adjusted by the California CPI
\$5.09	The GAIN wage (for California workfare)
\$5.25	The 1976 California Minimum adjusted by the California Necessities Index
	Average California Wage

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Source: "What the Numbers Say About the Level of the Minimum Wage in 1986," Carlos Davidson and Tom Larson



## VI. Indexing the Minimum Wage: A Solution for Everyone

The language of the state legislation indicates that maintaining the real wage is required. This is not possible if years go by between adjustments and the purchasing power is reduced by price changes. Only indexation will preserve the real value of the minimum and thus conform to the intent of the law.

The obvious choices for a good index are the California CPI (with an adjustment for the housing component) and average hourly earnings in manufacturing. The U.S. Minimum Wage Commission has recommended the use of an earnings index so that minimum wage workers are not only protected from inflation, but can also share in general productivity gains, thus allowing them to maintain their relative economic position.

Indexation will also avoid the periodic sharp increases that contribute to the employment shock that employers complain about. Frequent adjustments will greatly reduce the need for major market adjustments. It is the lack of indexation that is the chief reason we see some employment reduction after a minimum wage hike.

## **VI. Arguments Against the Proposed Two-Tier Youth Minimum Wage**

Every year new proposals are made to create a subminimum wage for youth. These are simply employer efforts to reduce wages and do not reflect concern with employment, as is typically claimed. The major objections are summarized below.

1. Employment effect: little new employment can be expected as a result of lower youth wages. Empirical work indicates that a 10% cut in the minimum wage is associated with a one percentage point reduction in unemployment among youth. Among minority youth, the effect appears to be even smaller.
2. An increase in youth employment does not mean an increase in total employment. Low-wage adults may be replaced by youth at lower wages. This was confirmed by the U.S. Commission's report.
3. Income effect: because labor demand is not very sensitive to the wage, the youth wage bill will fall.
4. Other programs are more effective in aiding youth. Subsidies are currently available that make young people less expensive (even cheaper to the firm than under proposed minimum). These programs offer employment incentives without reducing income and are controlled so that adults are not displaced.
5. Experience with subsidized employment programs has shown that private sector employers still will not hire disadvantaged youth at a lower wage.

6. Proposal is really a subsidy for not so small businesses - paid for by low-wage workers (in effect, a regressive tax would be imposed).

The real problems behind youth unemployment are lack of aggregate demand and, for black youth, lack of central city jobs. Most teenagers need to be in school, we should not be in the business of subsidizing employers by permitting a sub-standard wage in order for them to try to replace adults with teenagers. This does not benefit most young people (in the long term especially) and clearly hurts displaced adults. When economic necessity causes teenagers to seek employment, they should be targeted for aid and deserve all consideration. Employment training, job creation and public sector subsidies can be used to help disadvantaged youth. It has been demonstrated over and over that carefully targeted aid is the best way to deal with such problems. It makes no sense to cut wages for all youth and dis-employ some self-supporting adults in order to provide pocket money for juveniles. Studies indicate that employers will continue to avoid hiring those youth who truly need jobs because of family poverty because they do not wish to hire the disadvantaged. But, it is also unrealistic on the part of employers to think that their preferred low-wage young worker, the clean-cut product of a middle-class family will seek out employment if wages are cut - and the problem facing many suburban employers is precisely that wages are already too low to attract such teenagers.

A sub-minimum will clearly fail to benefit youth from low-income households. Major studies consistently demonstrate that cutting the minimum wage will greatly reduce income to low-wage workers. Those who advocate lower wages for youth from poor households are offering the following bargain: we will cut your wages by 30% but will increase your hours of employment by 3%, for a substantial net loss of earnings. Put another way, someone working 100 hours a month at

\$3.35 an hour would be able to work 103 hours a month at \$2.34 an hour. This three hour gain comes with a loss of \$94 a month in income. This unpleasant bargain is still better than what young blacks could expect; there is no evidence that a wage cut would lead to any increase in their hours and they would lose \$101 for every 100 hours worked.



## VIII. Responses to Employer Arguments

- Training. Employers say that a higher minimum would discourage On-the-Job training.

Response: A higher minimum would provide incentive for workers to to invest in more schooling in order to be more productive and command a higher wage. Employers may also seek to increase their investments in their workers. A higher wage encourages longer tenure; with fewer quits the employer would reap greater benefits from on-the-job training. A low wage only encourages the employer to maintain a high turnover rate.

- Employment. Employers say that the minimum wage will lead to greater unemployment.

Response If employers are truly concerned with the well-being of workers, they should welcome a rise in the minimum wage since studies of the effect of an increase indicate that the wage bill will definitely rise. It may be that some workers will take a cut in hours - but the likely effect of a 10% wage hike would only be a two percent cut in hours - for a net gain in earnings. There would be few workers who would face actual unemployment.

If employers truly believed that unemployment would increase significantly following a rise in the minimum wage, they should welcome the increase - since more unemployment will reduce the cost of recruitment, increase the quality of applicants and tend to restrain wage demands. But,

employers must know that unemployment will not be much affected since they oppose the minimum wage.

- Economic Inequality. Employers say that a rise in the minimum wage broadens the income gap between blacks and whites.

Response. Minority and female workers are greatly over-represented in the minimum wage and poverty populations - so they would derive the greatest benefit of an increase. There is simply no evidence that a rise in the minimum would have a net adverse impact on minimum wage workers. That is why minority organizations, such as the Asian Law Caucus and MALDEF, strongly support an increase.

- Investment. Employers say that a rise in the minimum will require greater capital investment and the development of new technologies.

Response: We agree, this is one of the major benefits of raising the minimum wage. Higher wages will encourage efforts to increase productivity, this will benefit us all and contribute to the creation of a prosperity based on high-wages and a high standard of living. Many economists feel that productivity is associated with the job. Increasing wages may require raising the productivity of the job and this can be accomplished without expensive new training or education for the worker which is lost if the worker leaves the firm.

- Runaway Shops. Employers say that higher wages will force companies to leave the state or move to other countries and will discourage firms from entering the state.

Response: A higher minimum wage will have little or no effect on plant closures. Most firms in California are here to supply Californians and are saving on transportation and communications for themselves and their customers by being here. Hotels and hospitals will not leave the state if wages increase. For those firms exporting goods and services, almost any conceivable wage exceeds wages in third world nations. A recent SRI report concluded that California cannot compete with low-wage nations and must strive to develop a high-wage economy. Raising the minimum wage will actually aid in this important effort. For firms concerned with product costs that export to other states, there is simply no evidence that labor costs are a major factor in their location decision. Manufacturing firms have few workers earning the minimum wage or less, an increase in the minimum will have little effect on their labor costs much less on their total costs.