

The California Minimum Wage, Inflation and the Poverty Line

California State Senate Appropriations Committee

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Testimony by:

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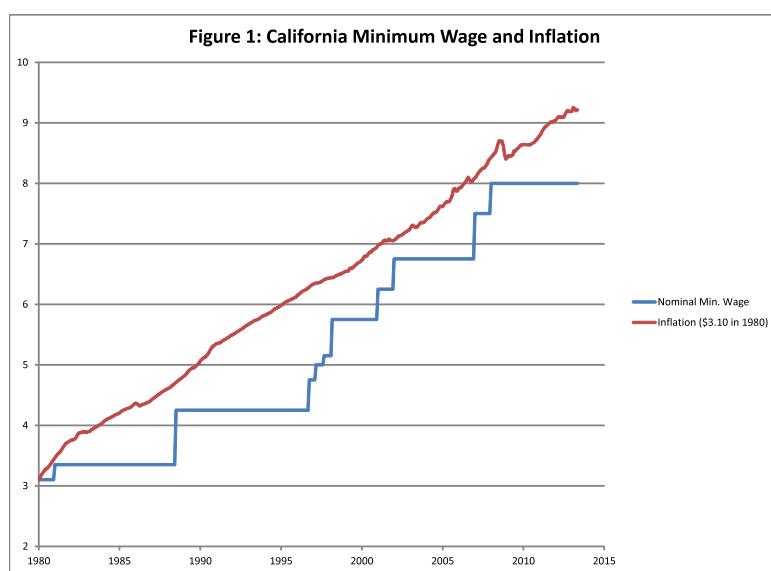


Thank you, Chair de Leon, Vice Chair Walters, and members of the Committee. It is an honor to testify before you on the important topic of the minimum wage. I am a Professor and Chair of Economics at the University of California, Santa Cruz and have conducted research in labor economics for more than 20 years. I have been asked to discuss the minimum wage in California, inflation, and the poverty line.

The Minimum Wage in California

I would like to show you a couple of graphs on the minimum wage.

Figure 1 displays the minimum wage over the past 4 decades. The minimum wage has increased infrequently and at inconsistent intervals. The minimum wage in California was \$3.10 in 1980 and currently stands at \$8.00 per hour.

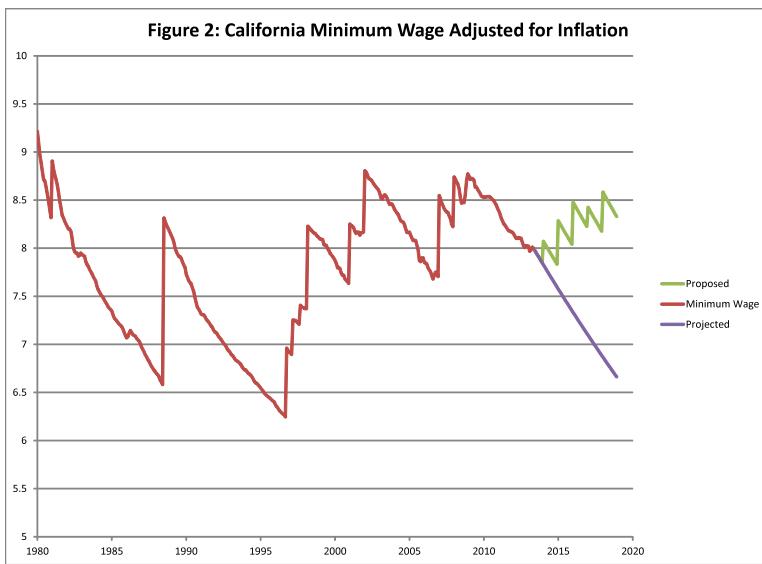


But, inflation makes the \$8.00 today worth much less than \$8.00 in 1980. Figure 1 also displays how inflation affects \$3.10 in 1980. That \$3.10 is worth \$9.20 today. This makes it clear that the minimum wage has not kept up with inflation and is much lower today than it was in 1980.

Given this concern, 10 states currently index their minimum wage to cost of living changes. These states include Florida, Arizona, Colorado, as well as Oregon and Washington. Many social programs are also indexed to inflation. For example, Social Security benefits increase every year with the cost of living.

It is clearly very important to keep inflation in mind when discussing past and future trends in the minimum wage. Figure 2 displays changes to the minimum wage from 1980 to 2013 adjusted for inflation. Adjusting for inflation the minimum wage has followed a pattern in which it has decreased then has been bumped upward at irregular intervals.

Figure 2 also displays the proposed changes to the minimum wage over the next several years to 2020 versus not making any changes.



I want to make three main points from this graph.

First, if the minimum wage is not increased it will essentially erode to almost the lowest level ever attained over the past 4 decades.

Second, the proposed increases over the next few years are not out of line with previous increases. They are in fact very similar to increases in the past.

Third the proposed increases of \$0.25 and \$0.50 in the next few years will potentially create a less disruptive change than a large one-time increase. The proposed increases will restore some of the losses over the past couple of years.

Recent Research on the Minimum Wage

The major concern with increasing the minimum wage is that jobs will be lost. The research findings on this question, however, are mixed. Two recent studies by Professor Michael Reich at UC Berkeley do not find that increases in the minimum wage have a negative effect on employment.

The Minimum Wage and the Poverty Line

The final point that I would like to discuss is how the minimum wage places someone relative to the federal poverty line. A major goal of the minimum wage is to ensure economic security for less-skilled workers.

Figure 3 displays the federal poverty line for a family of 4 with 2 children.



- The poverty line is \$23,283.
- A worker making the minimum wage working full-time (i.e. 50 weeks and 40 hours per week) would make \$16,000 per year. This is only 2/3 of the poverty line.
- A part-time worker with 20 hours per week only makes \$8,000 per year. This is only 1/3 the poverty line.
- Looking at it another way, a worker making the CA minimum wage would have to work 58 hours per week the entire year to be at the poverty line.

Of course as we all know, the cost of living in California is much higher than other parts of the country. Thus, the comparison to the poverty line is even worse if we adjusted for the cost of living in California.

Without an increase in the California minimum wage, a full-time minimum wage worker will fall even further below the poverty line.

The California minimum wage should *not* be allowed to continue to erode away due to inflation. The economic security of our low-wage workers in California is just too important to allow that to happen.