

## Employment Policies

INSTITUTE

# The Impact of Raising California's Minimum Wage

Assemblyman Luis Alejo (D-Salinas) has sponsored a bill (AB 10) that would raise California's minimum wage in a series of steps to \$9.25 an hour, linking that value to rise with the inflation rate in future years. Alejo claims his bill will reduce hardship among low-income employees, without unduly harming the entry-level job market. But a careful look at Census data for California employees who would be affected by Alejo's bill suggests that his efforts are misguided at best—and will be actively harmful at worst.

### WHO'S COVERED BY THE ALEJO BILL?

The Employment Policies Institute (EPI) analyzed 2012 Current Population Survey for Californians covered by Alejo's proposal.<sup>i</sup> The Assemblyman's bill raises the state minimum wage in a series of steps (\$8.25, \$8.75, and \$9.25), so EPI chose \$9 as a reference point for this analysis. (This figure also has the appeal of matching the \$9 an hour federal minimum wage that President Obama proposed in his State of the Union address).

As the table at right demonstrates, the largest group of Californians (45 percent) covered by Alejo's proposal is teens or others living at home with parents or relatives. By contrast, just 7.2 percent are single parents. The most striking takeaway from this data is that nearly two-thirds of those covered by Alejo's proposal are *not* the sole or primary breadwinner in their family.

This helps explain why the average family income of a covered employee is \$45,266—considerably higher than the poverty-line figures that Alejo and others have misleadingly used. It also explains why past studies have found little relationship between a higher minimum wage and reductions in the poverty rate.<sup>ii</sup>

### Family Characteristics of Californians Covered by a \$9 Minimum Wage

Single Adults	20.4%
Married, Single Earner	9.2%
Living with Parent/Relative	45.2%
Married, Dual Earner	18.0%
Single Parents	7.2%

**Nearly two-thirds of those covered by Alejo's proposal are not the sole or primary breadwinner in their family.**

### WHAT WOULD BE THE IMPACT OF THE ALEJO BILL ON JOBS?

Were poor targeting the only problem with Alejo's bill, supporting it might still be a worthwhile proposition. Unfortunately, a large body of evidence—including 85 percent of the most credible economic studies from the last two decades—suggests that a wage mandate reduces job opportunities for the least-skilled and least-experienced jobseekers.<sup>iii</sup> This is especially the case in California, which currently faces the nation's highest teen unemployment rate at 32.5 percent.<sup>iv</sup>

Raising the cost to hire and train these young jobseekers—and putting that cost on autopilot to rise most years thereafter—would worsen the state of California's entry-level job market. Relying on past estimates of job losses associated with an increase in the minimum wage, even a modest employment decline following Alejo's proposed minimum wage increase would cost the state at least 11,500 entry-level jobs. Depending on individual employers' responses, past economic literature suggests that those job losses could be much greater.

<b>Projected Employment Loss in California from a \$9 Minimum Wage</b>	
<b>One Percent</b>	<b>11,512</b>
<b>Three Percent</b>	<b>34,537</b>
<b>Six Percent for Young Drop-Outs, Two Percent for Others</b>	<b>29,318</b>

*Note: Percent figures above represent “elasticities,” or the percentage drop in employment among affected employees for each 10 percent minimum wage increase.*

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## **WHAT ARE OTHER ALTERNATIVES TO THE ALEJO BILL?**

Economic research suggests that the Earned Income Tax Credit (EITC) is a far more effective way to reduce poverty than raising the minimum wage. The EITC is targeted through the tax code to poor families, and it also boosts wages without reducing employment.<sup>v</sup> The monetary benefit is substantial: For a single parent family with two

children, the full-time minimum wage in California is \$10.50 an hour when the EITC is accounted for.<sup>vi</sup>

Twenty-five states provide a supplement to the federal EITC, but California is not currently one of them. Creating even a modest state supplement would be an effective and targeted way to reduce poverty in the state, without creating new barriers for the 32.5 percent of young, job-seeking Californians that would like to work but can’t find a job.

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<sup>i</sup>Pooled data January 2012-December 2012

<sup>ii</sup>For instance, see: Sabia, Joseph J. and Richard V. Burkhauser. 2010. “Minimum Wages and Poverty: Will a \$9.50 Federal Minimum Wage Really Help the Working Poor?” *Southern Economic Journal* 76(3): 592-623.

<sup>iii</sup>For a comprehensive review of the evidence, see: Neumark, David and William Wascher. “Minimum Wages and Employment.” *Foundations and Trends in Microeconomics*, 2007, Vol. 3, Nos. 1-2, pp. 1-182

<sup>iv</sup>EPI analysis of CPS data, May 2012 – April 2013

<sup>v</sup>For instance, see: Sabia, Joseph. “The Impact of Minimum Wage Increases on Single Mothers.” *Employment Policies Institute research paper*. September 2007.

<sup>vi</sup><http://www.cbpp.org/eic2012/calculator/>

*The Employment Policies Institute is a non-profit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI focuses on issues that affect entry-level employment.*