



California Budget  
& Policy Center

# Policy Changes That Increase Economic Security in California

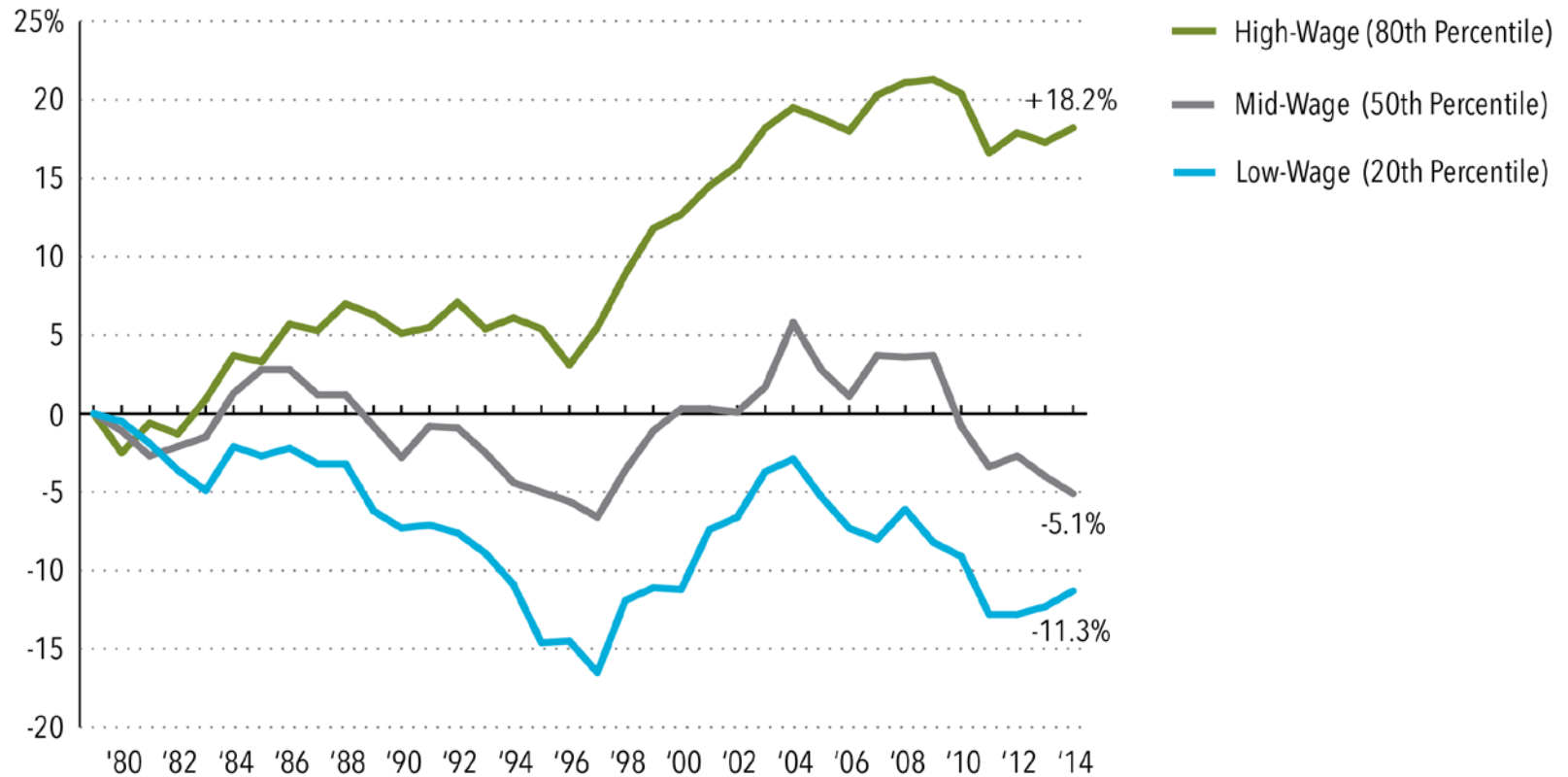
CHRIS HOENE, EXECUTIVE DIRECTOR

APRIL 28, 2016

[calbudgetcenter.org](http://calbudgetcenter.org)

# Wages for California's Low- and Mid-Wage Workers Have Eroded Since 1979

Percent Change in Inflation-Adjusted Hourly Wage, 1979 to 2014



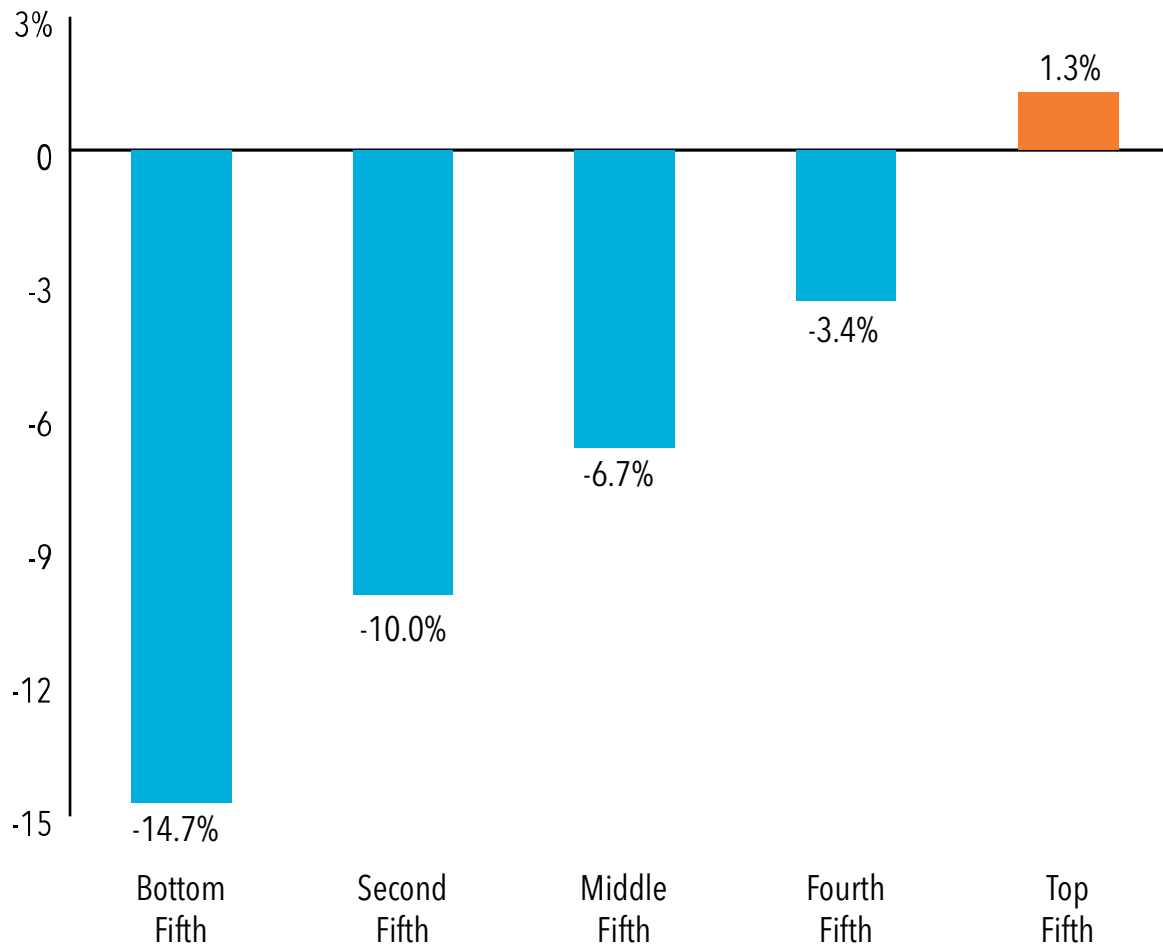
Note: Data are for workers ages 25 to 64.  
Source: Budget Center analysis of US Census Bureau data



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# Only High-Income Households Have Seen Their Incomes Recover From the Great Recession

Percent Change in Income Segment's Average Inflation-Adjusted Income, 2006 to 2014



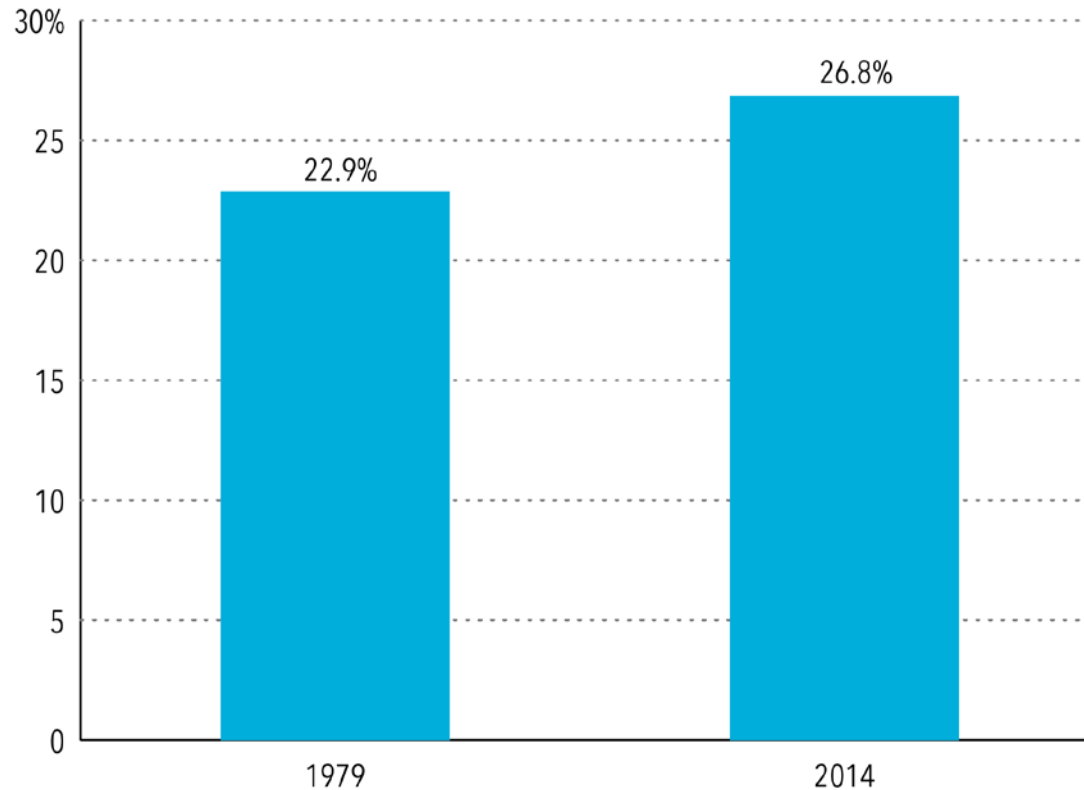
Source: US Census Bureau



# The Share of Workers in California Who Earn Low Wages Has Increased

Percentage of Workers Who Are Low-Wage Workers, 1979 vs. 2014

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Note: Data are for workers ages 25 to 64. A low-wage worker is defined as someone who earns less than two-thirds of California's median wage.

Source: Budget Center analysis of US Census Bureau data



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# Two Major Policy Changes

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- **EITC:** As part of the 2015-16 state budget agreement California enacted its first-ever Earned Income Tax Credit (EITC).
  - California's EITC is a larger than normal credit (85% of the federal EITC) that is targeted to low income workers.
  - Funding for California's EITC must be provided in the annual budget – currently projected at \$380 million.
- **Minimum Wage:** State Policymakers recently reached a deal that will increase the state's minimum wage to \$15/hour by 2022 (2023 for small businesses).



**California's state Earned Income Tax Credit (EITC) is modeled after the highly successful federal EITC.**



# The Federal EITC Has a Decades-Long Track Record of Success

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The federal EITC:

- **Reduces poverty.** Together with the Child Tax Credit, it lifts more children out of poverty than any other policy.
- **Boosts employment.** The credit has significantly increased employment, particularly among single mothers.
- **Benefits families and children.** The credit has been linked to improved health for mothers and infants as well as to better educational outcomes for children.
- **Boosts local economies.** The credit brings billions of federal dollars into the state that workers spend.



# California's State EITC Is Available to Workers With Very Low Earnings

Earnings Thresholds to Qualify Vary by Number of Children

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<b>Earnings Needed to Qualify for California's State EITC and Maximum Size of State Credit</b>			
Number of Children	Annual Earnings to Qualify for State EITC	Annual Earnings to Qualify for Maximum State EITC	Maximum State EITC
0	Less Than \$6,580	\$3,290	\$214
1	Less Than \$9,880	\$4,940	\$1,428
2	Less Than \$13,870	\$6,935	\$2,358
3+	Less Than \$13,870	\$6,935	\$2,653





# California's EITC Will Benefit Workers Who Don't Have Full-Time, Year-Round Work

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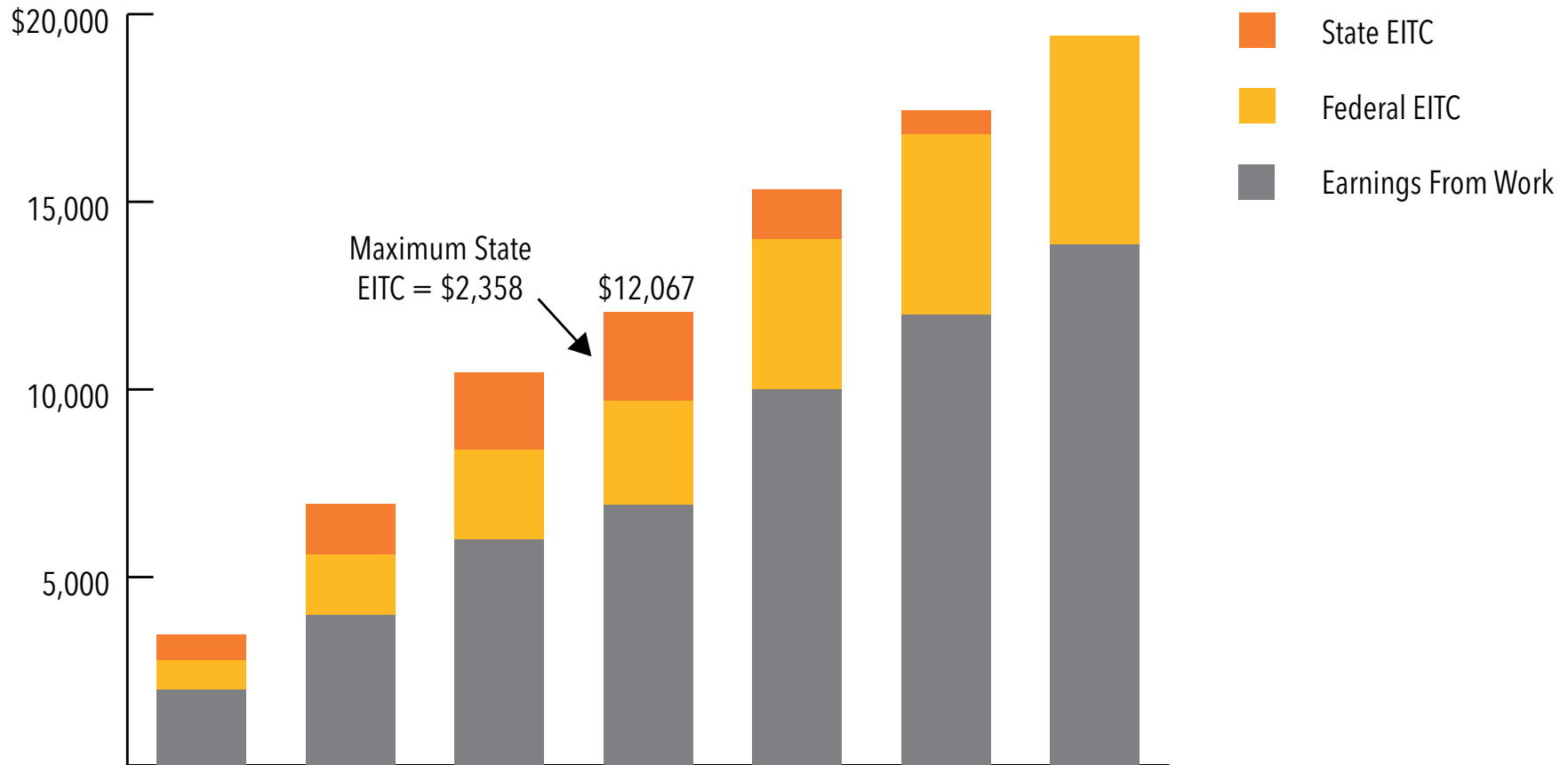
Workers who will benefit from the state credit likely include people who:

- Face significant barriers to maintaining steady employment, such as a lack of stable housing, low levels of education, mental or physical health problems, and prior involvement in the criminal justice system.
- Have limited work histories that make it difficult for them to find regular, full-time jobs, such as young adults or parents participating in welfare-to-work.
- Lose their jobs or have their hours of work reduced.



# The State and Federal EITCs Combined Could Boost a Working Parent's Income by Nearly Three-Quarters

## Income for a Single Parent With Two Children Including California's State EITC, 2015



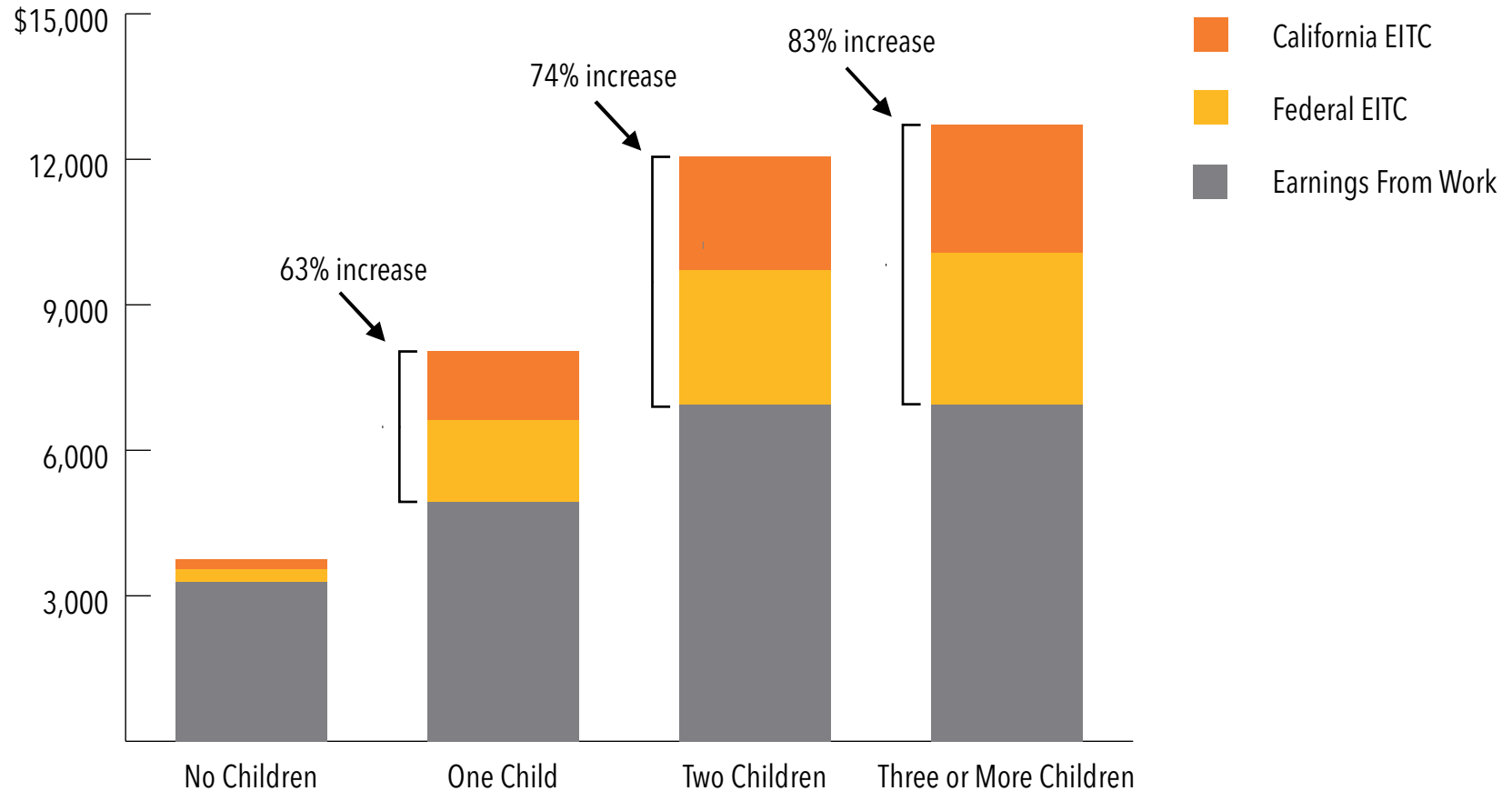
Note: A single parent with two children qualifies for the maximum state EITC with annual earnings of \$6,935

Source: Budget Center analysis of California's state EITC



# The California and Federal EITCs Could Significantly Boost the Incomes of Working Families With Children

Maximum Increase in Income From the State and Federal Earned Income Tax Credits, 2015



# California's \$15 Minimum Wage: What We Know and What We Don't Know?



# What We Don't Know

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- Much of the focus on California's \$15 minimum wage has been on the potential effects on employment and business.
- However, the research on minimum wage increases is generally inconclusive or finds very little/no effect. "Meta-studies" conclude that
  - No effect on jobs or effects are too small to detect.
  - Effects are too modest to have meaningful consequences in dynamically changing labor markets.



# What We Don't Know

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- How might California's \$15 minimum wage be different?
  - Effects on local labor markets could differ from state and national labor markets.
  - A larger than normal increase in the minimum wage might increase the effects?
- Two ways that California's minimum wage increase is notable:
  - The minimum wage would be a higher percentage of the median wage in many regions of the state than in the past.
  - The increase would effect a much larger share of the workforce than with prior increases.



# What We Know:

## Millions of California Workers Benefit

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- Well over 1/3 of the of California's workforce – 5.6 million workers in total – are expected to see their earnings rise, including those earning just above the \$10 hourly minimum now.
- Who are these workers?
  - Vast majority – 96% – are *not* teenagers. Six in 10 are between the ages of 30 and 64.
  - Minimum-wage workers contribute half of their families' total earning, on average, and 1/3 are supporting children.
  - Almost half (47%) have some college experience.
  - 2/3's work full-time.

*Source:* UC Berkeley Labor Center



# What We Know: The Minimum Wage Increase Boosts Economic Security

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- California's labor market has experienced decades of wage erosion.
- The failure to maintain the purchasing power of the minimum wage – by tying it to inflation (cost of living) – has resulted in a growing share of California's workers earning low wages.
- Even with the minimum wage increasing to \$10 this year, it remains 15% below its peak value in 1968 – and without further increases would have dropped to 27% below the peak value by 2022.





# What We Know: The Increase to \$15 is Less Dramatic Than Some Have Claimed

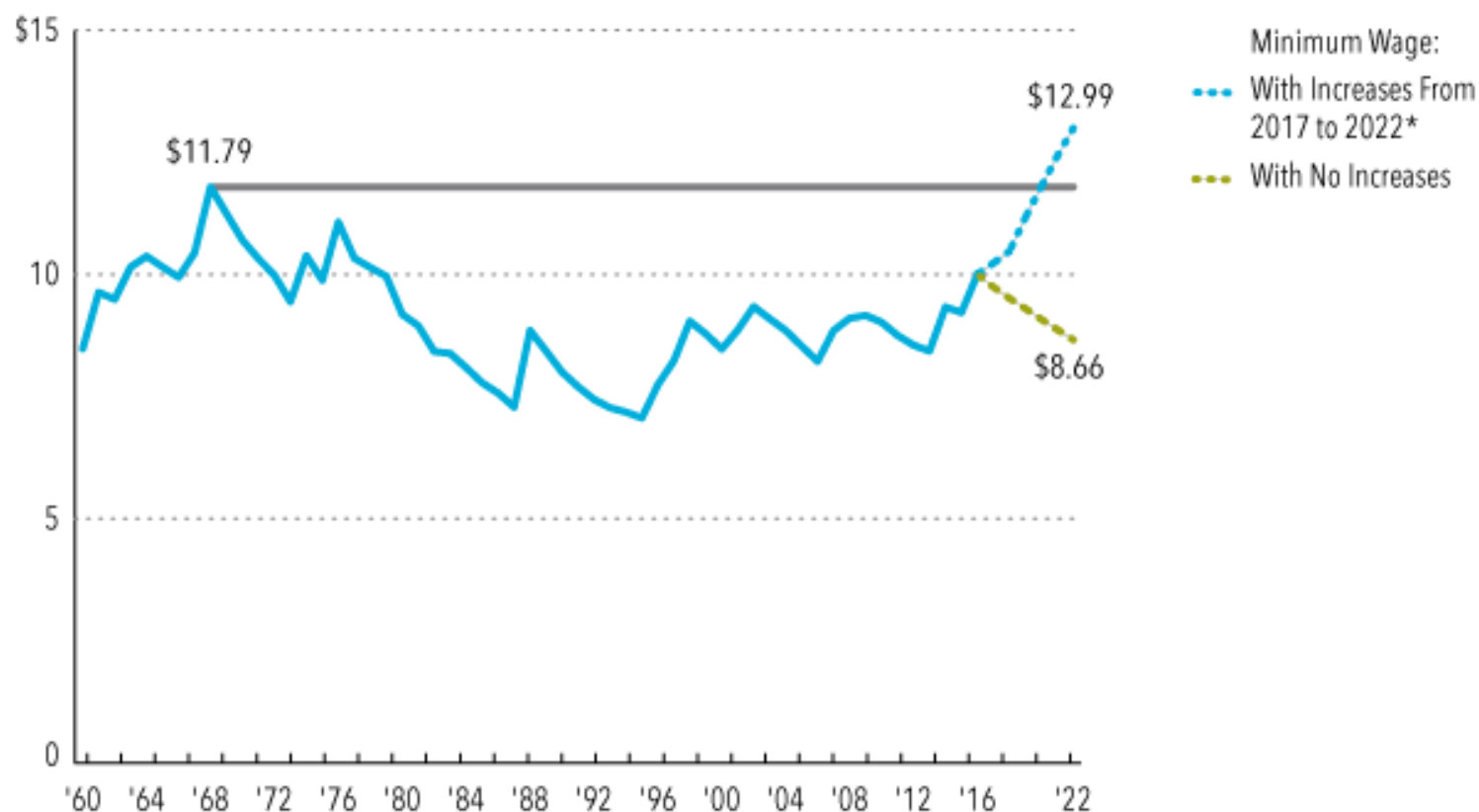
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- A \$15 minimum wage in 2022 is worth about \$13 in 2016 dollars – which means the plan increases the wage by 30% by 2022 (after adjusting for inflation).
- This is comparable to minimum wage increase implemented in the state in the mid-1990s.
- The increase to \$15 happens more gradually (over six years) than the increases in the 1990s (over three years) and the mid-2000s (over two years).
- If California had tied the minimum wage to inflation, the wage today would be about \$11.80 per hour.



# California Will Restore Lost Value of the Minimum Wage as Soon as 2020, Then Boost It Just Beyond Its Prior Peak

California's Minimum Wage, 1960 to 2022 (2016 Dollars)



\* Assumes that none of the increases are delayed by the Governor, as permitted under certain conditions.

Note: Annual increases from 2017 to 2022 apply to businesses with 26 or more employees, with each annual increase for smaller businesses taking effect one year later. Without adjusting for inflation, the minimum wage will reach \$15 per hour by 2022 for larger businesses, assuming no increases are delayed. Source: Budget Center analysis of Department of Industrial Relations and Department of Finance data and SB 3 (Leno), Chapter 4 of 2016



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# **What We Know: The EITC and Minimum Wage Combine to Significantly Increase Economic Security**





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