California's $15 Minimum Wage

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By Zach Wong '19

On April 4, 2016, Governor Jerry Brown signed into law Senate Bill 3 mandating minimum wage increases for the state of California. The law increased the minimum wage for business with 26 or more employees to $10.50 per hour on January 1, 2017, and continues annual increases until reaching $15 per hour on January 1, 2022. Businesses with 25 or fewer employees follow the same wage increase pattern, but one year behind their larger counterparts. Once the minimum wage reaches $15 per hour for all businesses (in 2023), the increases each year are indexed for inflation, as measured by the national Consumer Price Index.

Governor Brown was initially wary of the minimum wage hike and the California Department of Finance opposed an early version of SB 3. It opposed the proposed bill because it would result in significant, unbudgeted costs to the General Fund. The Department of Finance analysis also noted that net impact of an increased minimum wage on California's economy is likely to be negative due to losses from higher production costs to businesses and slower employment growth. Both the governor and the Department of Finance tabled their opposition with the inclusion of an "off-ramp" allowing the governor to pause the wage hikes in the event of certain economic conditions. The law contains two sets of triggers to pause upcoming minimum wage increases. The first centers on the state's economic performance. The governor has the authority to pause the next wage hike if sales tax revenue for the past 12 months is down from the year before or job growth is negative for either of the previous three months or six months. The second trigger focuses on the state's own balance sheet. The governor can hit the pause button if the state has a projected deficit of more than 1 percent of general fund revenue in the current fiscal year or either of the next two fiscal years. With the inclusion of the off-ramp authority, the governor and the Department of Finance came out in support of SB 3.

Governor Brown was not the first California chief executive to sign a minimum wage increase. According to the UC Berkeley Labor Center, 21 cities and one county (Los Angeles) have minimum wage ordinances. Mountain View and Sunnyvale already have a $15.00 per hour minimum wage in place. The City of Los Angeles and Los Angeles County have enacted minimum wage laws that took effect one year earlier than the statewide law and also increase the minimum wage at a faster pace. Both ordinances reach $15.00 per hour in 2020 for employers with 26 or more employees and in 2021 for employers with 25 or fewer employees. Thereafter, the minimum wage will increase based on the Consumer Price Index published by the United States Bureau of Labor Statistics.

The Los Angeles County Board of Supervisors cited three reasons for the minimum wage hike. First, it believed the poverty rate at the time (27% of residents making below the equivalent of $30,785 for a family of four) was too high. Second, it found that full-time workers were not earning enough to "cover bare necessities such as safe housing, healthy food, adequate clothing, and basic medical care." Finally, the Board characterized low income workers as a social and economic issue because they relied the most on County services, and thus taxpayers and the community ultimately bear the cost of low wages.

Supporters of the minimum wage hike made additional arguments in support of the change. Mayor Garcetti, for example, argued that every American "should be able to support themselves, and they should be able to support their families." As the Board of Supervisors found, the cost of living in many parts of Los Angeles County is so high that full-time, minimum wage employees were unable to pay for basic necessities. By raising the minimum wage, proponents say, these same employees should have more money in their pockets to spend on things they need. Some supporters speculated that minimum wage workers would be more motivated and productive if paid more.

California Minimum Wage Schedule

	26 or More Employees	25 or Fewer Employees
January 1, 2017	$10.50	$10.00
January 1, 2018	$11.00	$10.50
January 1, 2019	$12.00	$11.00
January 1, 2020	$13.00	$12.00
January 1, 2021	$14.00	$13.00
January 1, 2022	$15.00	$14.00
January 1, 2023	$15.00	$15.00
January 1, 2024	Indexed	Indexed

Source: California Labor Code Section 1182.12

Opponents of the minimum wage increase were largely concerned with the effects on businesses and the sustainability of a large increase. Ruben Gonzalez, from the Los Angeles Chamber of Commerce, was quoted by local media on the day the Los Angeles ordinance was enacted, saying that businesses will have to implement a 50-60 percent increase in wage costs over a four or five, at most six-year period. He pointed out that most families would have difficulty with such a steep rise in their expenses in that short time frame. Several commentators note that it may be particularly difficult for small businesses to absorb the higher wages since many employ a small, primarily hourly staff, and operate on thin cash flow margins.

The minimum wage increases in Los Angeles and statewide in California are fairly recent and thus the effects are not yet clear. Seattle began a series on minimum wage hikes in 2015. The city commissioned a team of researchers from the University of Washington to study the effects of the wage hike. The research team had access to extensive administrative records on employment, hours, and earnings from the Washington Employment Security Department. It attempted to answer two questions: Is Seattle better off than before it raised the minimum wage? Is Seattle better off than it would have been if it had not adopted a higher minimum wage?

The minimum wage study team published an analysis of the first phase of the wage increase, from $9.47 to $10.00 or $11.00 in 2016. They found Seattle's low-wage workers did relatively well after the minimum wage increase, but attributed that largely to the strong regional economy. The team published a second report in 2017, incorporating an additional year of data and including a second increase to $13 an hour. They found that low-wage workers saw a three percent increase in wages, but also a 9 percent decrease in hours worked - a net loss of six percent in income earned. The end result of the minimum wage increase, the University of Washington study concluded, was an average net loss in income for minimum wage workers of $125 per month. The report also estimated that there were about 5,000 fewer low-wage jobs in the city than there would have been without the law.

A competing study by researchers from University of California, Berkeley – also commissioned by the City of Seattle – found that found Seattle's minimum wage law led to higher pay for restaurant workers without costing jobs in 2015 and 2016. The Berkeley researchers criticized the methodology of their University of Washington counterparts for not properly taking into account Seattle's economic boom for certain methodological choices such as excluding multi-site businesses. Both reports have been gotten considerable attention in the press and are being vigorously debated.

It is hard to know what all of this means for workers in the Inland Empire. The California Legislative Analyst's Office estimates that 30-35 percent of the workers in San Bernardino County and Riverside County are low-wage earners, making less than $12.50 per hour. It remains to be seen if minimum wage hikes will realize the goal of increasing earnings for those who need it most. ◆