



California **Labor** Federation | AFL-CIO

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California's Top Economists Say Raising the Minimum Wage Will Help California Economy

Forty-six economists from Stanford, UC Berkeley, UCLA and other top California universities have signed a letter to Governor Schwarzenegger urging him to sign AB 2832 (Lieber). The bill, which is sponsored by the California Labor Federation, AFL-CIO, would raise the state minimum wage from \$6.75 to \$7.75 in two 50-cent increments over two years, in July 2005 and July 2006.

In the letter the economists argue that, "The evidence indicates that the proposed increase of the minimum wage would alleviate poverty, would not hurt the state's employment and would benefit the state budget."

Economists in support of a higher minimum wage have often pointed to studies that show that California taxpayers could save well over \$2 billion if the state minimum wage were raised to \$7.75. Low wages cause the cost of public assistance programs to increase because low-income households rely upon such programs to meet their basic needs.

Michael Reich, an Economics professor at U.C. Berkeley who spearheaded the letter to the Governor, said, "It's important for the Governor to form his policy decisions based on accurate economic information. The empirical evidence shows that raising the minimum wage in California has not hurt the state's employment levels and would in fact reduce employee turnover and increase productivity. Signing AB 2832 makes sound economic sense."

AB 2832 is currently awaiting action by Governor Schwarzenegger.

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Economists Support Raising the California Minimum Wage

The undersigned California economists urge Governor Schwarzenegger to sign AB 2832 (Lieber). This bill would raise the state minimum wage from \$6.75 to \$7.75 over two years in two 50 cent increments, in July 2005 and July 2006.

As economists we are mindful of the potential effects of minimum wages on alleviating poverty, the potential effects on employment, and the potential effects on the state's budget.

Poverty Adjusted for inflation, a \$7.75 minimum wage will still be lower than the minimum wage that prevailed in the late 1960s and early 1970s. California's minimum wage covers only 32 percent of the cost of renting a two-bedroom apartment, compared to 47 percent in Washington and 52 percent in Oregon. By this measure, among the twelve states that currently have a minimum wage higher than the federal standard, California is the second lowest (only Massachusetts is lower).

Minimum wage workers earning within a dollar of the minimum wage are mainly adults (61 percent are over 25), Latinos (54 percent), full-time workers (61 percent) and concentrated among low-income households (58 percent are in households with incomes under \$30,000). In the past three years, poverty has risen less in California because of the two 50 cent increments in the minimum wage in 2001 and 2002.

Employment Studies of the state's minimum wage increases in 1996-98 and 2001-02, which were larger in percentage terms than the current bill, find that employment had not fallen because of the minimum wage. In these previous two rounds of increases, employment in lower-wage industries, such as eating and drinking establishments, has outpaced employment in higher-wage industries, such as manufacturing and construction.

Research on California indicates that lower-wage industries would likely experience modest price increases (3 percent or less) as well as reduced employee turnover and higher productivity. Studies of all the states that have their own minimum wage standards do not find any significant effect upon employment in their lower wage industries.

The State's Budget Low wages have a direct effect upon public assistance programs because low-income households rely upon such programs to meet their basic needs. The best estimates indicate that California taxpayers could save well over \$2 billion if the state minimum wage were raised to \$7.75.

The evidence indicates that the proposed increase of the minimum wage would alleviate poverty, would not hurt the state's employment and would benefit the state budget.

Signers of Economists' Minimum Wage Statement

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Robert M. Anderson, UC Berkeley
Michael A. Bernstein, UC San Diego
Raford Boddy, CSU San Diego
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