

DO BUSINESSES FLEE CITYWIDE MINIMUM WAGES?

Evidence from San Francisco and Santa Fe

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In 2003, the cities of San Francisco, California, and Santa Fe, New Mexico, each passed *city-wide* minimum wage laws, with broad coverage and wage levels set significantly above the federal level of \$5.15 an hour. In the search for policy tools to raise living standards for working families, other cities have also considered such policies.¹ Indeed, local policy makers across the country have looked to these two cities for lessons learned.²

Policy makers generally are most concerned about the impact of citywide minimum wage laws on overall employment in their city and on whether their large retailers — who generate considerable sales tax revenue for the city — will respond by moving outside the city or not locate new stores

inside the city. In this report, we provide a brief overview of what is known about the impact of the San Francisco and Santa Fe laws on employment and on large retail businesses.

THE POLICIES

Table 1 summarizes the San Francisco and Santa Fe minimum wage policies. The San Francisco ordinance covers all employers in the city. In 2006, the minimum wage is set at \$8.82 an hour, compared to a statewide minimum wage of \$6.75 and a national minimum wage of \$5.15. The minimum is increased each year in line with local inflation. In 2008, it is projected to reach about \$9.20 an hour, when the state's state minimum wage will reach \$8.00 an hour.

¹ One other city, Washington, DC, has had a citywide minimum wage law since 1993, but its current level (\$7 per hour) and coverage are lower than those in San Francisco and Santa Fe, making it a less useful case study. Albuquerque, NM passed a citywide minimum wage law in April 2006, scheduled to go into effect on January 1, 2007.

² A number of other cities, including Milwaukee, WI and New Orleans, LA, passed citywide wage laws that were later invalidated at the state level. Santa Cruz, CA has an initiative to increase the minimum wage to \$9.50 on the November 7, 2006 ballot. See also Paul Sonn, "Citywide Minimum Wage Laws: A New Policy Tool for Local Governments," Economic Policy Brief #1, Brennan Center for Justice, New York University, June 2005.

TABLE 1 - THE SAN FRANCISCO AND SANTA FE MINIMUM WAGE LAWS

	San Francisco	Santa Fe
Date law was enacted:	November, 2003	February, 2003
Date law went into effect:	February, 2004	June, 2004
Coverage:	All employers	>25 employees
Current wage level:	\$8.82/hour	\$9.50/hour
Wage level in 2008:	\$9.20/hour *	\$10.50/hour

* Projected 2008 wage level, using as inflator previous year trends in Consumer Price Index for Urban Wage Earners and Clerical Workers for the San Francisco-Oakland-San Jose, CA metropolitan statistical area.

The Santa Fe ordinance covers all employers with at least 25 employees. In 2006 it is set at \$9.50 an hour, compared to a \$5.15 state and national minimum wage. The minimum wage is scheduled to increase to \$10.50 in 2008; this increase must first be approved by another vote of the Santa Fe City Council.

THE IMPACTS ON EMPLOYMENT

Two recent econometric studies have carefully analyzed the impact of these laws on employment and on store closures:

- Dube, Arindrajit, Michael Reich and Suresh Naidu (May 2006), “The Economic Impacts of a Citywide Minimum Wage.”³
- Potter, Nicholas (2006), “Measuring the Employment Impacts of the Living Wage Ordinance in Santa Fe, New Mexico.”⁴

The San Francisco study examines the restaurant industry, the sector that employs three-fifths of all the minimum wage workers in the city and that has the largest fraction of minimum wage workers among all its employees. The Santa Fe study looks at all businesses in the Santa Fe metropolitan area. Both studies are based on data collected from the businesses in each city.

Both studies use a variety of controls and standard statistical techniques to isolate the impact of the policy from other changes in the local economy. For example, the San Francisco study compares large and small employers, employers in a nearby city,

different types of restaurants, and the presence of immigrants in the restaurant workforce. The Santa Fe study also compares large and small employers, employment trends in Albuquerque, NM, and other indicators.

The main findings of both studies are very similar: the effects of both citywide minimum wage laws on employment are small, positive, and statistically insignificant. The effects on store closure are small and positive in San Francisco and small and negative in Santa Fe. In both cases, the effects are too small to be statistically different from non-effects:

- In San Francisco, employment in affected restaurants, measured in full-time equivalents, increased by 2.5 percent more than in other restaurants. The difference, however, was not statistically significant.
- In Santa Fe, employment in affected businesses increased by 0.8 percent more than in other businesses. This difference also was not statistically significant.
- In San Francisco, gross store closures were 2.8 percent lower in restaurants subject to the minimum wage law than in restaurants in nearby cities *not* covered by the law. The difference, however, was not statistically significant.
- In Santa Fe, net store closure was 1.1 percent higher in businesses subject to the minimum wage law than in businesses not covered by the law. This difference also was not statistically significant.

³ *Working Paper, Institute of Industrial Relations, University of California at Berkeley.* www: repositories.cdlib.org/iir/iirwps/iirwps-111-05. See also Michael Reich, Arindrajit Dube, and Gina Vickery (January 2006), “The Economics of Citywide Minimum Wages: The San Francisco Model: an IIR Policy Brief”: www.iir.berkeley.edu/research/sfminimumwage.pdf. The San Francisco papers also report other outcomes, such as restaurant prices, work hours, employee turnover, and impacts of immigrants.

⁴ *Working Paper, Bureau of Business and Economics Research, University of New Mexico.*

TABLE 2 - SUMMARY OF ESTIMATED EFFECTS OF CITYWIDE MINIMUM WAGE INCREASES ON EMPLOYMENT IN SAN FRANCISCO AND SANTA FE

San Francisco (per one percent change in wages)	Percentage change in employment	Standard error	Statistically different from zero?
Simple difference over time	0.8	(1.1)	No
Compared to similar cities	0.3	(1.0)	No
Larger versus smaller employers	0.4	(1.0)	No

Santa Fe (per one percent change in wages)			
Simple difference over time	0.1	(1.4)	No
Compared to similar cities	1.2	(14.2)	No
Larger versus smaller employers	0.8	(0.6)	No

Sources: This table is extracted from two studies: Dube, Arindrajit, Michael Reich and Suresh Naidu (May 2006), "The Economic Impacts of a Citywide Minimum Wage," Working Paper, Institute of Industrial Relations, UC Berkeley; and Potter, Nicholas (2006), "Measuring the Employment Impacts of a the Living Wage Ordinance in Santa Fe, New Mexico," Working Paper, Bureau of Business and Economics Research, University of New Mexico.

Note: The San Francisco study reports percentage changes in employment from a one percent change in wages. The Santa Fe study reports the changes in the log of employment (roughly, percentage change in employment) from the change in the minimum wages. Both studies take into account the impact of business closures in both treatment and control groups. The Santa Fe study includes all industries and the San Francisco study includes only the restaurant industry.

Table 2 summarizes in greater detail the employment findings from these two studies, using three different sets of control groups. These involve: a simple comparison of city employment before and after the policy; a comparison of employment changes in each city with those of comparable cities in its state in the same time period; and a comparison between small employers not covered by the minimum wage law and large employers who were covered. The consistent finding for both San Francisco and Santa Fe is that the citywide minimum wage laws had no significant impacts on employment.⁵

THE IMPACTS ON LARGE RETAILERS: EVIDENCE FROM STORE DATA

As we noted above, policy makers are particularly concerned with how retailers will respond to a citywide minimum wage law. The behavior of large "big box" stores, such as Costco, Home Depot, Target and Wal-Mart, can have significant effects on a city's sales tax revenue. It is instructive, therefore, to examine the large retailers that are *currently* operating in San Francisco and Santa Fe, since these retailers are paying each

city's minimum wage.

Each year the National Retail Federation publishes in Stores Magazine a list of the top 100 retailers nationwide (ranked by revenue). Some of these retailers operate in every major national market; others are regional and do not. In 2006, for example, about two-thirds of the top 100 retailers were present in the Greater San Francisco Bay Area (CMSA) market. In Table 3, we have taken the 2006 listing of the top 100 retailers (ranked by annual revenue) and indicated the businesses and number of stores that each retailer currently operates in San Francisco and Santa Fe.

Each city has a healthy representation of the nation's largest retailers, many with multiple stores and all paying the city's minimum wage. Indeed, Sam's Club in Santa Fe voluntarily started paying the higher minimum wage even before the law went into effect, and Wal-Mart is now building a new SuperCenter in the city. In San Francisco, Home Depot recently agreed to open its first store in the city and to pay an even higher wage of \$10.77.

⁵ San Francisco phased in its minimum wage law over two years for non-profit organizations and businesses with fewer than 10 employees.

TABLE 3 - TOP 100 RETAILERS WITH STORES IN SAN FRANCISCO AND SANTA FE IN 2006

	# stores in San Francisco	# stores in Santa Fe		# stores in San Francisco	# stores in Santa Fe
7-Eleven	14	0	Marshall's	1	0
Abercrombie and Fitch	2	0	Mervyn's	1	1
Albertsons	2	3	Michael's Stores	0	1
American Eagle Outfitters	2	0	Neiman Marcus	1	0
Auto Zone	0	1	Nordstrom	4	0
Barnes & Nobles	2	0	Office Depot	3	2
Bath and Body Works	2	1	Office Max	2	1
Bed Bath & Beyond	1	1	Payless Shoe Source	7	3
Best Buy	1	1	Pearle Vision	0	1
Big Lots	1	1	Pets Mart	0	1
Bloomingdale's	1	0	Radio Shack	18	3
Borders Books	4	2	Rite Aid	8	0
Burlington Coat Factory	1	0	Ross Stores	4	1
C.O. Bigelow	2	1	Safeway	6	0
Circuit City	1	0	Saks	2	0
CompUSA	1	0	Sears	0	3
Costco	1	0	Sports Authority	1	1
CVS	0	2	Staples	4	0
Dillard's	0	1	Sunglasses Hut	10	1
Discount Shoe Warehouse	1	0	Target	0	1
Express	2	0	Tiffany	1	0
Foot Locker	5	2	TJ Maxx	0	1
GameStop	6	3	Trader Joe's	3	1
Gap	15	1	Victoria's Secret	6	1
Home Depot	0	1	Waldenbooks	1	0
JC Penny	0	1	Walgreens	56	3
Kay Jewelers	0	1	Wal-Mart	0	1
K-Mart	0	1	White Barn Candle Co.	2	1
Lane Bryant	1	1	Whole Food Markets	2	1
Lens Crafters	3	1	Williams-Sonoma	4	0
Linens 'n Things	0	1	Zale	0	2
Lowe's	0	1			
Macy's	2	0	<i>Total no. of stores</i>	225	59

Sources: "Top 100 Retailers", STORES magazine, <http://stores.org/pdf/06%20JULY%201-100%20Chart.pdf>. Retail company web sites.

In Table 4, we compare the presence of the nation's top retailers in San Francisco *before and after* the city-wide minimum wage went into effect. As the table indicates, the number of different businesses and the number of stores in the city *increased* after the minimum wage policy was implemented. After combining the 2003 and 2006 top 100 lists, we found that 68 retailers maintained a market presence in the Greater SF Bay Area market in 2003 and/or 2006. Among

these 68 retailers, 47 had stores in San Francisco in 2003, increasing to 52 retailers in 2006, while the number of stores operated by these retailers increased from 207 to 241.

Taken together, the results in these two tables indicate that cities with minimum wage policies do not experience an exodus of major retail businesses.⁶

⁶ These results are very suggestive. Of course, additional data from comparable cities without a minimum wage policy would be required to identify more conclusively the impact of the policy on the number of stores in the city.

TABLE 3 - TOP NATIONWIDE RETAILERS OPERATING STORES IN SAN FRANCISCO

	# stores in 2003	# stores in 2006		# stores in 2003	# stores in 2006
7-Eleven	7	14	Marshall's	1	1
Abercrombie and Fitch	2	2	Mervyn's	1	1
Albertsons	3	2	Michael's Stores	1	0
American Eagle Outfitters	2	2	Neiman Marcus	1	1
Barnes & Nobles	2	2	Nordstrom	4	4
Bath and Body Works	3	2	Office Depot	3	3
Bed Bath & Beyond	1	1	Office Max	2	2
Best Buy	1	1	Payless Shoe Source	9	7
Big Lots	1	1	Pier 1 Imports	1	1
Blockbuster	10	10	Radio Shack	17	18
Bloomingdale's	0	1	Rite Aid	9	8
Borders Books	2	4	Ross Stores	3	4
Burlington Coat Factory	1	1	Safeway	13	14
C.O. Bigelow	0	2	Sherwin-Williams	2	1
Circuit City	1	1	Smart and Final	4	4
CompUSA	1	1	Sports Authority	0	1
Costco	1	1	Staples	2	4
Discount Shoe Warehouse	0	1	Sunglasses Hut	5	10
Express	2	2	Tiffany	1	1
Foot Locker	3	5	Toys "R" Us	1	0
GameStop	1	6	Trader Joe's	2	3
Gap	11	15	Victoria's Secret	3	6
JC Penny	1	0	Waldenbooks	2	1
Lane Bryant	0	1	Walgreens	51	56
Lens Crafters	5	3	White Barn Candle Co.	0	2
Macy's	2	2	Whole Food Markets	2	2
			Williams-Sonoma	5	4
			<i>Total number of stores</i>	<i>207</i>	<i>241</i>
			<i>Number of retailers</i>	<i>47</i>	<i>52</i>

Note: This table includes four retailers who appeared on the 2003 top 100 but not the 2006 top 100. As a result, the 2006 column includes more stores than does the column for San Francisco in Table 3 above.

Sources:

2003 "Top 100 Retailers," Stores Magazine, July 2003, and 2003 San Francisco White Pages.

2006 "Top 100 Retailers," Stores Magazine, July 2006, and store locators on retail company web sites.

THE IMPACTS ON RETAIL ESTABLISHMENTS AND EMPLOYMENT: EVIDENCE FROM GOVERNMENT SURVEYS

Another source of information for examining the impacts of a citywide minimum wage involves the county-level administrative data collected by governments. These data, which are published by the Bureau of the Census under the title, *County Business Patterns*, are available for San Francisco (which is a city as well as a county) through 2004. Figure 1 presents the number of large retail establishments (defined as those with

more than 100 employees) for San Francisco for the years 2001 to 2004, for retail as a whole, and also for the major retail subsectors: grocery stores, general merchandise, and clothing and accessories. Figure 2 presents employment figures for the same years and sectors.

Both figures indicate declines from 2001 to 2003, years marked by recession for the U.S. and California and the end of the high tech bubble for the Bay Area. The figures also show stability or revival between 2003 and 2004, when the national and regional economies began to recover.

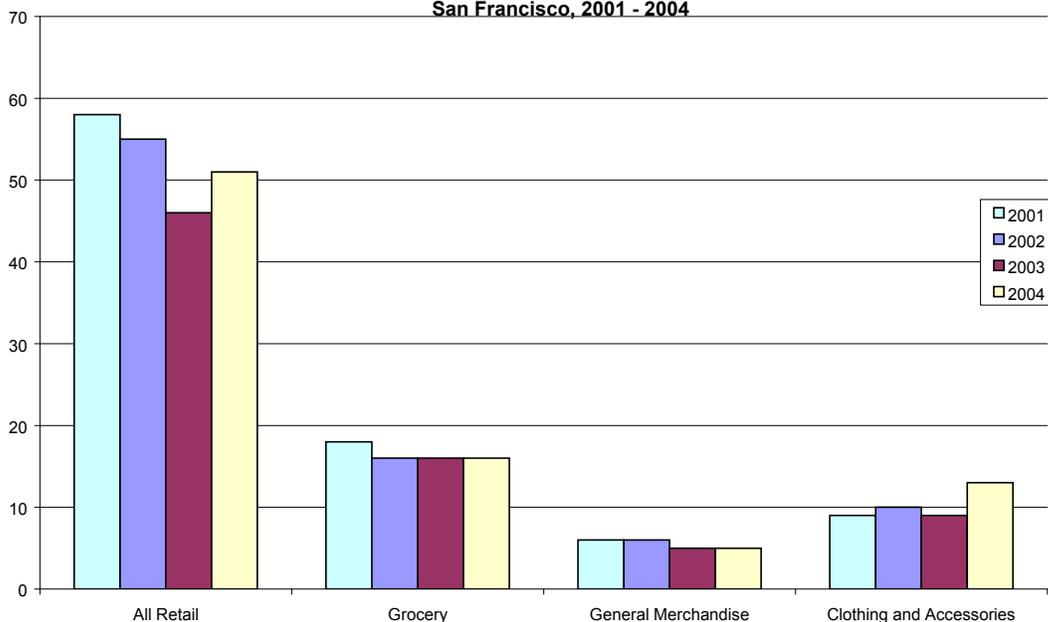
The message for policy makers is that trends in national, state and regional economic cycles dominate any impacts of citywide minimum wage policies.

CONCLUSION

During the debates preceding the votes on both cities' laws, businesses threatened to leave if a minimum wage were enacted. In this brief we have reviewed the economic impact studies conducted for San Francisco and Santa Fe, the two cities with citywide minimum wages. These studies, which both use sophisticated statistical techniques, found no significant impact on

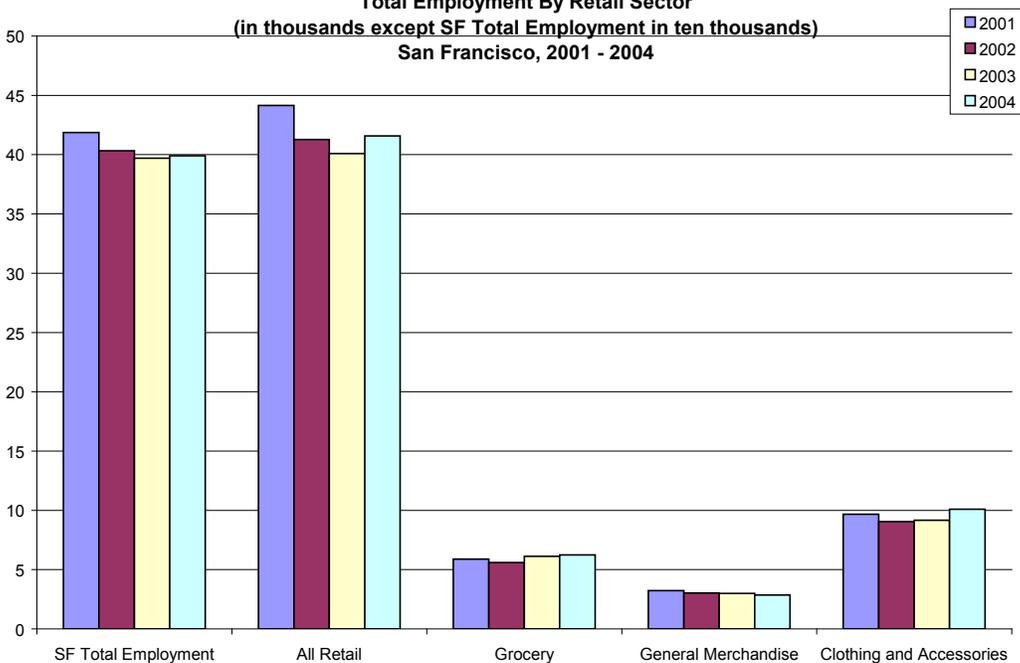
employment or business closures. We have also presented suggestive data on the major retail stores in the two cities and found both a significant continuing presence of such stores and evidence of increases in the number of such stores. Finally, we examined published county-level government data for the retail sector in San Francisco and found trends that mirror economic activity overall, rather than the introduction of a city minimum wage. We conclude that each of these types of evidence point toward the same result, namely that citywide minimum wage laws have had no significant impact on employment or retail store closures.

Figure 1
Number of Retail Establishments with > 100 Employees
San Francisco, 2001 - 2004



Source: County Business Patterns 2004

Figure 2
Total Employment By Retail Sector
(in thousands except SF Total Employment in ten thousands)
San Francisco, 2001 - 2004



Source: County Business Patterns 2004

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