

Assembly Labor and Employment Committee hearing for AB 1439 on April 18, 2012

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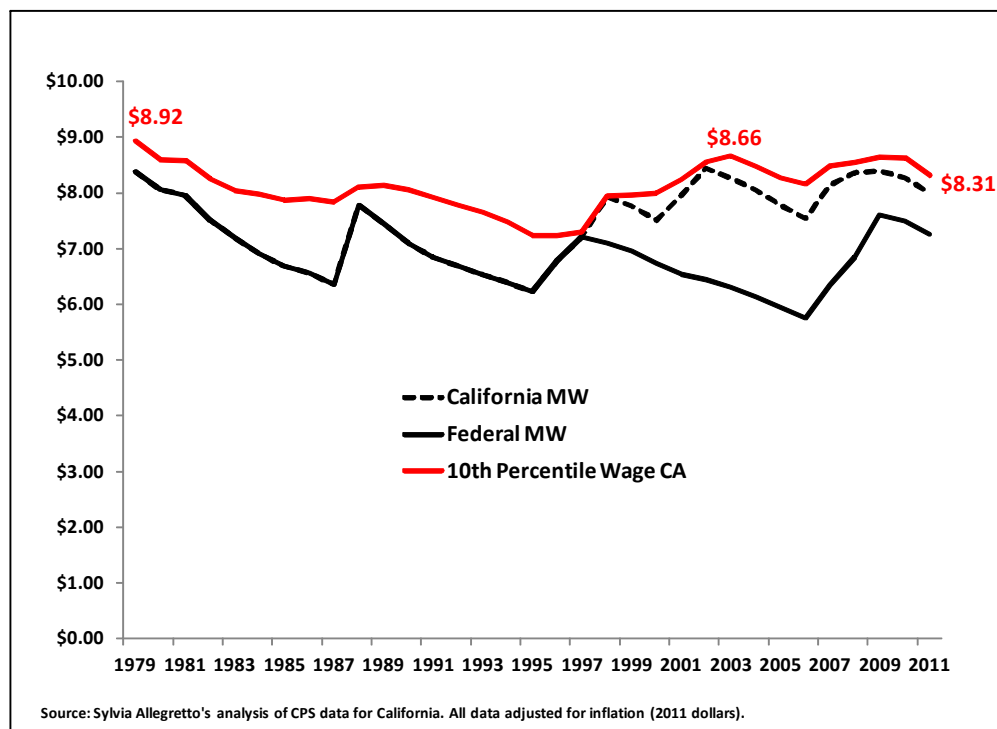
Good afternoon. Thank you for this opportunity to speak in partial support of this important bill. I emphasize partial support because I strongly believe the bill does not go far enough. Low wage workers in this state need a long overdue increase in the minimum wage (MW) along with annual indexing to keep it from eroding year after year as prices increase.

Let's review some facts, which are depicted in Figure 1. Solid black is the federal MW. Dotted black is CAs MW and red line is the wage of low wage or 10<sup>th</sup> percentile workers in CA from 1979-2011.

This year marks the fifth year that the MW has been at \$8.00 and even as inflation has been fairly mild over this period the wage will have eroded in value by about 6.2% to \$7.50 by 2013. Perhaps more importantly, the wage received by low wage workers in CA have DECREASED over the last three decades, on average, by 7% not just for the 10<sup>th</sup> percentile workers show in the Figure but for the entire bottom 30% of workers (1979-2011).

Thus, implementing annual indexing when the MW has been in decline—either a five-year or a 30-year decline—is not a good place to start.

**Figure 1 California's MW and low wage track closely**



It is clear the MW matters given how the two series track. Especially since CA instituted a MW in 1997—it seems more than likely that had the policy not been enacted the pay of our low wage workers would have continued the 1979 to 1997 decline—when wages fell from \$8.92 to \$7.30 (real \$2011)—and the trend most likely would have tracked the 2006 low point in the Federal MW.

Thus, post-'97, the actual function of CAs MW has been to prevent long and significant declines—like the 18% slide that occurred from 1979-1997—it has not provided for any real wage gains. For comparison, the wages of CAs higher wage workers those at the 90<sup>th</sup> percentile have increased about 30% above and beyond inflation over the last three decades—thus exacerbating income inequality. All the economic gains have been flowing disproportionately to those at the top while leaving everyone else behind.

New research by the Center for Economic & Policy Research in DC has shown that today's MW workers are more likely to be better educated than they were in 1980. My research shows that this is also the case in CA. Yes, MW workers are disproportionately young but 43% are at least 35 years old, one in six has an Associate's or BA degree. Furthermore, MW workers are concentrated in a few industries: such as retail trade, low end health care services and leisure & hospitality (such as restaurant workers)—these industries account for 56% of low wage workers. Importantly, these are the exact same industries that are growing in the state. As we move more and more toward a service based economy which employs a large share of low wage workers the state will be hard pressed to sustain a growing, thriving middle class without improving the quality of those jobs—including better pay.

As for the much talked about disemployment effects caused by an increase in the MW—a whole new body of research of which I'm a part of shows that MW increase over the last two decades have not caused employment losses—not even for likely affected groups such as teenagers and/or workers in the restaurant industry. Research includes San Francisco's \$10.24 MW which is indexed annually.

Those who suffered through econ 101 or perhaps common sense may leave one thinking this outcome contradicts economic theory: an increase in the price of something (labor) leads to a decrease in demand (workers). But, the MWs passed in the last two decades have simply not been in the competitive realm, as workers, especially those in low wage labor markets, have no bargaining power and employers set wages artificially low. As prices and profits have increased firms are paying less for low wage workers today than they did three decades ago.

Moreover, the new empirical research also highlights positive effects of MW increases such as:

- A strong wage effect—so it matters to the economic wellbeing of workers
- Reduced turnover & quit rates—thus reduces the high cost of TO and filling vacant positions
- Better worker morale and productivity and attracts better works

Let me stress the need for a boost along with indexing. This year marks five years of an \$8.00 MW in California—thus even a .50 increase would only get the wage back to the level it was in 2008 —because even with very mild inflation it has eroded that much.

Given the facts, it is simply not good policy to implement indexing without first implementing a boost to the MW. For the employers who have benefited greatly from these very low wages, it is never a good time for a MW increase.

But, the timing for an increase in California's minimum wage could not be better with our economy essentially on a long, slow recovery where many workers are being forced to take lower-paying jobs due to a historically weak labor market with unemployment rate in double digits for over three years now. Based on my research and on research by economists such as those at the Federal Reserve Bank of Chicago (2008) an increase in California's minimum wage will not cost jobs, but will help struggling families of minimum wage workers make ends meet and will strengthen the economy by providing a crucial spending precisely when the economy needs it the most.

California's low wage workers need an increase in the MW along with indexation to protect them in the future from constantly eroding buying power.

Thank you.

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