Raising Minimum Wages: Perspective From California Fair Wage Act of 2016

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ABSTRACT

California "Fair Wage Act of 2016" $ 15 Minimum Wage Initiative was intended to be a part of November 8, 2016 ballot in California as an initiated state statute. Proponents of the initiative withdrew the bill on June, 2016, in spite of being certified for the ballot. The California Legislature passed the alternative legislation, SB 3 that Governor Jerry Brown signed into law on April 4, 2016. Reaching this compromise offered both the proponents and the opponents to focus on the possible pragmatic outcomes of the legislation. This initiative analysis paper attempts to understand the origin of the bill, the core arguments from the both sides, and the implementation and evaluation criteria. If both initiatives had made it to the ballot, the initiative with the most votes would have superseded the other proposed measure.

BACKGROUND

California legislatures reached an agreement with the union leaders representing the competing measures. As a part of the compromise, the initiative stayed within the legislature. As part of the agreement, California businesses with more than 25 employees will be required to implement $15 per hour minimum wage in an incremental manner, starting with $10 per hour in 2016, $10.50 per hour in 2017, $11 per hour in 2018, $12 per hour in 2019, $ 13 per hour in 2020, $ 14 per hour in 2021 and eventually reaching the milestone of $15 per hour by 2022. The compromise had some provisions such as giving leeway to the small businesses with less than 25 employees – giving them an extra year to comply. Governor Jerry Brown signed the Senate Bill 3 into law on April 4, 2016.

THE PROPONENTS

The living expense in the state of California is very high. Minimum wage has not kept up with inflation. Not raising the minimum wage will certainly have adverse effect on families that rely on this income. The negative impact could include not being able to provide for the family. The proponents of the bill have also argued that minimum wage will lead to the government needing to subsidize this group with public assistance ranging from food stamps, Medicaid and subsidized housing. According to this Forbes piece, Walmart minimum-wage employees cost tax payers estimated $6.2 billion in public subsidies.

Looking at this study done by economists David Card and Alan Krueger in 1992, the study of the fast-food industry in New Jersey and Pennsylvania concluded that raising minimum wage showed no impact on the loss of jobs.

The proponents have also cited that there is minimal impact on businesses to carry the added operational costs. Businesses fold for any number of reasons, high wages being only one of many factors. Successful businesses are strategic and designed to manage trade-offs well. Smart, creative business models can off-set the higher operational expenses (that includes wages). The proponents argue that successful California brands like Trader's Joe, Costco and In-n-out have paid their employees well, and still managed to make profit. The argument could include the fact that higher pay will discourage unmotivated, unskilled workers – the unsung, unglamorous arm of the workforce that make or break the ecosystem.

In addition, the proponents of the initiative point out that there are several safety measures in place. For an instance, businesses with less than 25 employees will get additional year to comply. The Governor will also have discretion to intervene if the economy shows signs of slowing down. In support of the proponents, Congressional budget office conducted a study in 2015 that concluded that 24.5 million people will benefit from the minimum wage increase and a relatively smaller number of 500,000 will hurt from the hike.

THE OPPONENTS

The opponents of the initiative cite the potential risk that raising minimum wage will force businesses to lay off employees to compensate for the higher wages. This pressure of raising the minimum wage will also force businesses to seek alternate inexpensive solutions like introducing machine learning and robots.

According to the 2000 research done by economists Jeffrey Clemens and Michael Wither, 1.4 million jobs were lost when wages were increased by 30%. The opponents of the measure argue that a small percentage of workforce rely on the raise in the minimum wage. The remaining over 90% of work force gets paid higher than minimum wage voluntarily for the added value to their employers.

The opponents of the bill are worried that the higher wage may attract the older workforce looking to make it a career relying on the higher minimum wage incentives; and as a result, will oust the younger workforce looking for temporary apprenticeship type jobs, will miss out on the opportunity to gain valuable experience for lifetime. In essence, the argument is that when you are paying higher, you are hiring a different person; and, this will change the dynamics of the workforce drastically for worse.

Businesses are particularly also worried about the loaded costs that is not obvious in the initiative, in other words, a $ 15 per hour minimum wage will end up costing employers in the range of 17-18 dollars per hour when loaded costs are added.

THE COMPROMISE

As a compromise to not take this initiative to the ballot, the California Legislature passed the alternative legislation, SB 3 that Governor Jerry Brown signed into law on April 4, 2016. According to the compromised bill, the increase in the minimum wage will be phased in (for businesses with over 25 employees) incrementally over the next several years – starting with $10.50 an hour in 2017, $ 11.00 an hour in 2018, $ 12.00 an hour in 2019, $ 13.00 an hour in 2020, $ 14.00 an hour in 2021 and hitting the milestone of $ 15.00 an hour by 2022.

The compromised bill has placed in the provisions to protect businesses and halt the requirement to increase the minimum wage, if the economy is adversely impacted for any number of unforeseen reasons; and, in that case the Governor will have the discretion to stop the progressive nature of the minimum wage hike.

One of the fundamental challenges of the initiative of this nature is that future-looking plans typically lack adequate empirical evidence for either side of the argument. The unique nature of the accepted compromise by both parties further illustrates the insecurity on both sides having to compromise – evidently, due to inadequate, inconclusive research.

Some of the measures in place are also subjective, depending on how executive leadership and the legislature might interpret the definition of economic catastrophe, leading (and needing) to halt the progressive minimum wage hike in the future. The politics of the legislation and the gubernatorial office could very well influence the deciding criteria.

Analyzing the factors for and against the initiative, in my opinion, the fundamental concern is that both sides have valid argument; but, if you look for the details, California is a large state with 58 counties, with some representing major metros like Los Angeles, San Diego and San Francisco; and, the others representing rural communities like Modoc and Imperial Valley. When there is a state-wide equality mandate to increase the minimum wage, differentiation factors have to be justified. $ 15 per hour in Imperial Valley will go a long way compared to $ 15 an hour in San Francisco or Orange county.

If this initiative sees future policy amendments, my recommendation would be that different sets of minimum wage standards are established case by case based on counties - in a manner that counties with higher living costs enjoy the benefit of higher minimum wage, and a vice versa for counties with minimal living expenses. This way, if the principle of differentiation is embraced from the get-go, will force individual communities to compromise the rationale of equality – based on what the free market economic model would be able to bear, and what the qualitative research findings would mandate.

The final result, in this case - could very well include a plan, where the market will bear; and, the minimum wage in San Francisco could be rightfully higher that 15 dollars an hour, and the wages in Imperial Valley could be way lower than $ 15 an hour.

In regards to other stakeholders, it is important to conduct thorough qualitative analysis - to look into how higher minimum wage would impact the dynamics of families – in terms of how minimum wage earning parents could provide for their families, especially their children – in return empowering their children to be healthy and contributing members of the society in the future. Bringing the context of deontology and teleogical ethical norms in the mix, well raised children are much better investment than the adults coming from neglected families – becoming menace in society – and costing taxpayers far more – to have to penalize them to set examples for others. Again, I think all agree that there is no silver bullet here, in terms of finding the perfect solution. I believe foundational understanding of stakeholders is key to coming up with a winning compromise. I am a believer that sometimes we have to actively be mindful of the human toll as a result of a rushed, wrong legislation.

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