Minimum wage should be tied to inflation index

[by Michael Kinsman]

California's economy is so healthy these days that even Gov. Arnold Schwarzenegger now favors raising the minimum wage.

In the past, the Republican governor has not been very friendly to those seeking to raise the bottom rung of California wages.

But in his recent State of the State address, he dropped his opposition and proposed boosting the minimum wage from $6.75 an hour to $7.75 an hour over the next 18 months.

So is the governor now the champion of low-paid workers?

Not quite.

While Schwarzenegger acknowledged that it was time to increase the earning power of low-paid workers, he stopped short of offering them long-term protection.

He could have done that by tying California's minimum wage to an inflation index, such as the Consumer Price Index. That way if inflation grows, low-end wages would keep pace.

"What he has done is to implement a policy of eroding benefits the day the policy goes into place," says Jared Bernstein, an economist with the Economic Policy Institute, a Washington-based research organization supported by labor.

"Don't get me wrong. You have to appreciate that the governor is willing to raise the minimum wage, but at the same time, it's kind of like giving with one hand and taking away with the other. He's being kind of a girlie man on this one."

No one knows for sure how many Californians earn minimum wage. The best estimates claim that about 2 million jobs pay the minimum or slightly above that - about 13.5 percent of all jobs in the state. A large number of the minimum-wage jobs are held by students and people working in part-time jobs. The minimum wage, instituted first in the state in 1916, is not intended as a "living wage" but simply as a floor-level salary. Living wage ordinances have been adopted by some local governments that force contractors doing business with them to pay a so-called living wage, which is often considerably higher than minimum wage.

California's minimum wage has been raised two dozen times in the past, yet has required legislative or executive action to do so. Business interests routinely protest the increases, saying employers would need to eliminate jobs to accommodate pay increases. Delays diminish the earning power of low-paid workers.

Minimum-wage workers in California earn hourly pay that is 31 percent higher than the $5.15 federally mandated minimum wage. Schwarzenegger's proposal to boost the state wage is widely viewed as a concession to avoid the inflationary indexing that organized labor wants but businesses fear.

The state's minimum wage was last raised in January 2002. Since that time, prices have increased 11.3 percent. So indexing the wage to inflation makes sense.

In 2003, San Francisco adopted its own minimum wage of $8.50 an hour - 26 percent higher than the state's. That legislation also includes annual adjustments based on a regional inflation index.

Today, San Francisco's minimum wage is $8.82 an hour. Although business advocates say the city's businesses are feeling a financial pinch. A study released in January by the Institute of Industrial Relations at the University of California Berkeley said the gradual rise in the city's minimum wage has not led to layoffs or business failures.

And Bernstein says that Oregon's inflation-adjusted minimum wage of $7.50 - among the highest of the 17 states with minimum wage laws - has not resulted in fewer jobs.

Yet, not everyone is in favor of raising California's minimum wage or of setting up an inflation-adjustment mechanism.

"There is a ripple effect that runs all the way through the economy when you increase the minimum wage," says Stephen Zolezzi, executive director of the Food & Beverage Association of San Diego.

Zolezzi contends that a minimum wage hike results in pay boosts for other workers. For example, many union contracts call for automatic adjustments.

"The minimum wage should be just that - a minimum wage for people with no experience or job skills," he says. "Pay increases should be an incentive for people to gain competence and skills to move up in the labor market. They should get pay increases as a reward for doing that."

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Zolezzi argues that low unemployment and a scarcity of workers already has forced most employers to pay more than the minimum wage to attract qualified workers.

"That's how the market should adjust pay, not by some automatic adjustment," he says.

But isolating the minimum wage from inflationary pressures is tantamount to punishing low-paid or inexperienced workers until legislators feel they "deserve" an increase.

That's not right and why tying the minimum wage to an inflation index makes sense.