Los Angeles Area Chamber of Commerce

TUESDAY | January 10, 2006

THE BUSINESS PERSPECTIVE:

The Politics of Minimum Wage

Last week Governor Arnold Schwarzenegger delivered his State of the State speech. I must say that I have never seen him so passionate and forceful. Despite the expected partisan rhetoric that naturally followed, I believe that we will make substantial progress on his central theme, a $200+ billion program to invest in our infrastructure. In the coming weeks, I will be addressing our state's infrastructure needs and how best to fund new projects.

But infrastructure was not the only theme in his speech. His call to increase the state's minimum wage is another significant issue.

On Dec. 29, Gov. Schwarzenegger announced he is proposing a $1 increase in the minimum wage--a 50-cent hike in September and another 50 cents in 2007, increases that would take California's hourly minimum wage to $7.75.

As expected, most unions denounced the increase as being too small.

The federal minimum wage of $5.15 has remained unchanged since 1997. Several states, including California, have higher minimum wages. It has been fours years since California last upped its minimum wage from $6.25 to the current $6.75 an hour. Labor advocates are correct when they say the minimum wage is behind the rate of inflation. They say that a minimum-wage raise of $1.11 is needed to keep up with California's last wage adjustment, but that is not labor's only goal. Their objective is to implement "annual indexing"--automatic annual increases in the minimum wage--an approach that both the Chamber and the governor oppose.

Annual indexing of the minimum wage is based on the rate of inflation and is currently the law in Oregon and Washington. Their minimum wages are $7.25 and $7.35, respectively, which rank first and second in the nation for highest state minimum wages. They also have significantly higher unemployment rates--5.8 percent in Oregon and 5.6 percent in Washington. (California's is 5.2 percent, a little higher than the national average of 4.9 percent.) Is there a coincidence? I don't know, but it is worth thinking about.

What would annual indexing do to employers?

Indexing would subject employers to a bottomless pit of unpredictable expenses. If there is one thing that business needs, whether on taxes, regulations or wages, it is certainty. That is the only way business can plan. If an employer is considering an investment on a new business, facility or product, they must be able to project their costs--and indexing introduces a major uncertainty. For starters, it raises the minimum wage each year since the rate of inflation increases each year as well.

Consider what the annual cost of living increases have done to the federal entitlement programs: the escalating costs have nearly bankrupted them. Government programs and government regulatory authority must not operate on autopilot.

Any hike in the minimum wage negatively impacts small businesses like restaurants, car washes, landscapers and others. Each time their lowest-paid employees get a minimum-wage increase, their other employees expect a pay raise, too. As a result, employers ask their existing employees to do more with less, as fewer jobs are created with this new employer expense.

Backers of annual indexing contend that putting the minimum wage on this type of autopilot will help the legislature avoid regular battles over the minimum wage. To me, this is the worst argument they could make because it is the legislature's job to legislate. In other words, they need to try to work together and compromise when they lack consensus.

And that is what Gov. Schwarzenegger is proposing--a compromise that will help approximately 2 million low-wage earners to the tune of $2 billion.

A raise in the minimum wage, for many employers, will be a tough pill to swallow. However, Gov. Schwarzenegger has proposed a fair compromise, one that helps minimum-wage earners keep up with rising costs and--at the same time--gives employers the predictability they need to grow our economy and create jobs.

And that's *The Business Perspective*.

Rusty Hammer

The Business Perspective is an award-winning weekly opinion column by Rusty Hammer, President & CEO, L.A. Area Chamber

L.A. Business THIS WEEK
View the latest issue of the Chamber's weekly email newsletter. Contact us to subscribe.

Coming up at the Chamber

View all upcoming events on our web calendar.

FRI | Jan. 13
Accenture Pancakes and Politics
with Michael Peevey, CPUC, Terry Tamminen and Mary Nichols, LADWP
more info

WED | Jan. 18
Taste of the Chamber Mixer
more info

THU | Jan. 19
Export Seminar Series Session #1: Fundamentals of Export
more info

SAT | Jan. 21
L.A. Cash for College Day
more info

WED | Jan. 25
Environmental Quality Committee Meeting
more info

WED | Jan. 25
Transportation and Goods Movement Committee Meeting
more info

THU | Jan. 26
117th Inaugural Dinner
more info

MON - WED | Jan. 30 - Feb. 1
Faster Freight, Cleaner Air 2006
more info

THU | Feb. 16
Accenture Pancakes and Politics
with L.A. City Council President Eric Garcetti
more info

The Los Angeles Area Chamber of Commerce is the voice of business in L.A. County. Founded in 1888, the Chamber promotes a prosperous economy and quality of life in the Los Angeles region. For more information, visit www.lachamber.org

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