

ECONOMICS OF CITYWIDE MINIMUM WAGES

The San Francisco Model

IIR

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1 INTRODUCTION AND MAIN FINDINGS

In November 2003, San Francisco voters passed a ballot proposition to enact a citywide minimum wage by a 60 to 40 margin. This proposition arose in response to the large numbers of low-wage workers in San Francisco, where living costs are among the highest in the nation.

A minimum wage of \$8.50 took effect in February 2004, making San Francisco the first major city to implement a citywide minimum wage, other than the District of Columbia. Since that time, Santa Fe, NM and Milwaukee, WI have passed municipal minimum wage laws, and a number of other cities are considering similar policies.

San Francisco's minimum wage is the highest in the United States and is 28 percent higher than California's minimum wage of \$6.75. The minimum wage is also adjusted annually for cost of living increases. On January 1, 2005, the

minimum wage rose from \$8.50 to \$8.62 in line with this mandated adjustment.

Citywide minimum wage policies cover all employers in the city and differ from living wage policies, which typically apply only to employers with city service contracts. The San Francisco ordinance includes a two year phase-in period, during which nonprofits and businesses with less than 10 employees are not subject to the mandate. By January 2006, all San Francisco businesses must pay the citywide minimum wage.

Researchers at the Institute of Industrial Relations (IIR) studied the economic impact of the San Francisco minimum wage ordinance on earnings, employment, prices, job tenure, and other workplace-related characteristics.¹ A prospective study by Reich and Laitinen had surveyed private sector employers in all

¹ See Dube, Naidu and Reich, *Can A Citywide Minimum Wage be an Effective Policy Tool? Evidence from San Francisco*, 2005. Full versions of this and other minimum wage impact studies are available at www.iir.berkeley.edu/research/minimum.html.

industries.² The new impact study focuses on the restaurant industry, which employs the greatest proportion of low-wage workers and is particularly affected by minimum wage policies. This industry focus represents a standard approach in minimum wage studies. The survey included affected restaurants in San Francisco before and after the policy change. The researchers also surveyed unaffected restaurants in San Francisco and the East Bay as control groups.

MAIN FINDINGS

- *Reich and Laitinen predicted that 54,000 workers, or 11 percent of the city's workforce, would receive direct or indirect wage increases as a result of the citywide minimum wage.* Their data indicated that wage increases disproportionately benefit minority workers, particularly in the retail and service industries. The percentages of Latinos and African-Americans in low-wage jobs are twice as high as their percentage in the full-time workforce. The same holds for Asian-Americans in the part-time workforce.
- *San Francisco's minimum wage mandate substantially increased pay for low-wage workers.* As predicted, the percentage of workers that received a wage below \$8.50, in affected businesses surveyed, declined from 52 percent to 4 percent. In the control group, this percentage remained stable.
- *Employment growth was not affected.* Average full-time equivalent (FTE) employment in affected businesses increased by 2.5 percent more than in other restaurants. This difference was not statistically significant.
- *Workers in limited-service restaurants remained employed for longer periods of time and were more likely to have full-time jobs.* The average job tenure of workers at affected limited-service restaurants increased by approximately 3.5 months. In addition, 6 percent of the

workforce moved from part-time to full-time jobs within affected limited-service restaurants.

- *The percentage of tipped workers increased among full-service restaurants.* This may represent a hiring substitution, away from non-tipped workers towards more experienced workers. Alternatively, it may represent a greater sharing of tips among existing workers or perhaps increased task sharing among bussers and wait staff.
- *Average restaurant prices in San Francisco increased by 2.8 more than in East Bay counterparts.* Price increases occurred mainly in limited-service restaurants.
- *Compliance with minimum wage laws likely increased.* Enforcement mechanisms included in the San Francisco ordinance are stronger than those under state or federal laws. While compliance is not complete, data on employment and wages provide evidence that businesses with a predominately immigrant workforce seem as likely to comply with the new mandate as other businesses.

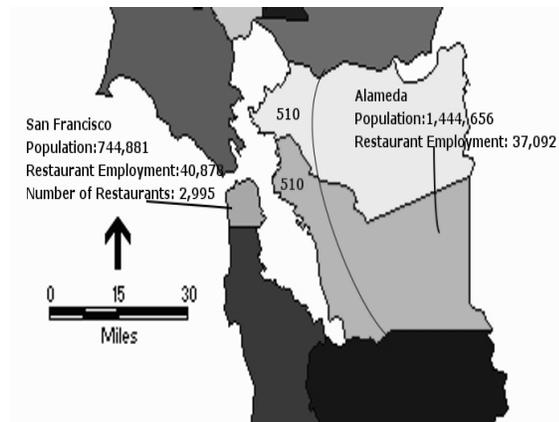
2 THE ECONOMIC IMPACTS OF SAN FRANCISCO'S MINIMUM WAGE

To determine the economic effects of the citywide minimum wage, IIR researchers surveyed restaurants just before the San Francisco minimum wage went into effect and re-interviewed the same restaurants nine months later. A total of 301 restaurants had complete pre- and post-implementation data. Restaurants surveyed included those in San Francisco affected by the new mandate, restaurants in San Francisco unaffected by the mandate (the "San Francisco control group"),³ and restaurants from the neighboring East Bay region that were unaffected by the mandate.⁴ This design allowed the researchers to compare affected restaurants to multiple control groups.

² Low-wage jobs are those paying less than \$9.00 per hour. See Reich and Laitinen, *Raising Low Pay in a High Income City*, 2003.

³ The San Francisco control group is comprised of restaurants that already paid above the new minimum wage and restaurants that received exemptions during the two year phase-in period (nonprofits and restaurants with less than 10 employees).

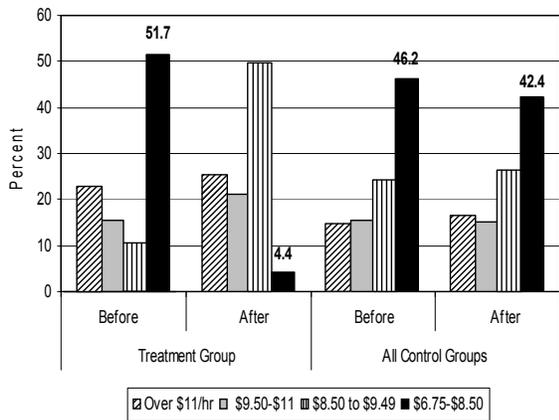
FIGURE 1 - SAN FRANCISCO AND EAST BAY AREAS



IMPACT ON PAY

San Francisco’s minimum wage mandate substantially increased pay for low-wage workers. In the affected restaurants, the percentage of workers receiving a wage below \$8.50 declined from 52 percent to 4 percent. In the control group, this percentage remained relatively stable, declining from 46 percent to 42 percent.

FIGURE 2 - WAGE DISTRIBUTIONS



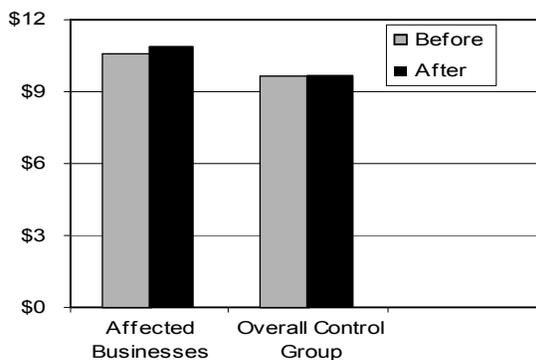
Source: Dube, Naidu and Reich (2005).

Health insurance coverage did not decline to compensate for increased wages.

The minimum wage policy in San Francisco clearly raised pay in affected businesses, while

pay remained relatively constant elsewhere. Average wages among affected businesses rose by 38 cents, from \$10.52 to 10.90, while average wages in the overall control group rose by only 7 cents, from \$9.63 to \$9.70.

FIGURE 3 - AVERAGE WAGES



Source: Dube, Naidu and Reich (2005).

The variance of log wages, a measure of inequality, declined among the affected businesses, yet rose slightly in the control group, indicating that the San Francisco minimum wage policy compressed the pay structure.

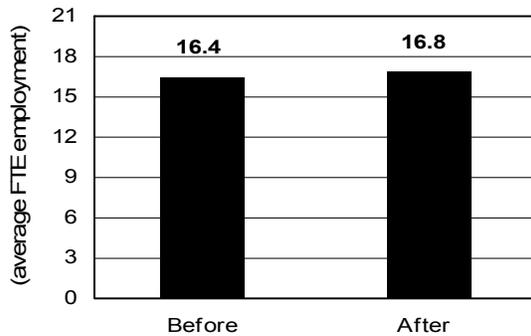
IMPACT ON EMPLOYMENT

The regression analysis utilized in the IIR study controlled for multiple external factors that may have affected employment, such as firm size and location.

Average full-time equivalent employment increased by 2.5 percent more in affected restaurants than in other restaurants. This difference was not statistically significant. A variety of additional tests and control groups lend confidence to the finding that there was no job loss resulting from the policy. The employment findings in the IIR report are similar to many existing studies on *state-level* minimum wage impacts - employment effects are generally small, positive, and not statistically significant.

⁴ East Bay restaurants provide a natural additional control group as restaurants in San Francisco and the East Bay are similar in terms of seasonal business patterns and employment trends.

FIGURE 4 - CHANGE IN AVERAGE FTE EMPLOYMENT FOR AFFECTED RESTAURANTS

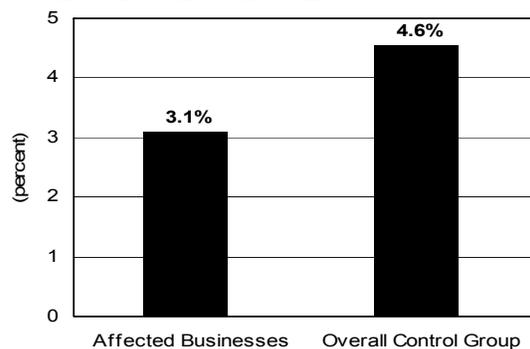


Source: Dube, Naidu and Reich (2005).

Looking at number of workers, as opposed to total hours worked, also produced the same pattern.

There was no indication that the policy led to increased business closure. Fewer affected businesses closed over this period (3.1 percent), as compared to businesses in the control group (4.6 percent).

FIGURE 5 - BUSINESS CLOSURES



Source: Dube, Naidu and Reich (2005).

COMPLIANCE AND EMPLOYMENT

It is commonly believed that some businesses, particularly those with a predominately immigrant workforce, do not comply with mandated wage policies. Immigrant workers, many of whom lack English language skills and documentation, may be less inclined to report non-compliance for fear of employer retaliation.

The strong enforcement mechanisms included in the San Francisco minimum wage ordinance may increase business compliance with minimum wage laws. Workers, their representatives, or entities acting on behalf of the public have the right to initiate civil action against noncompliant

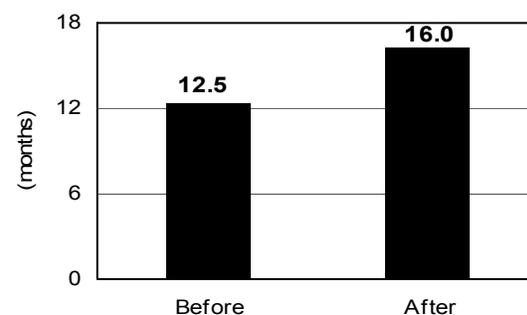
employers. Employees may receive back wages, as well as substantial payments for damages and attorney fees. The city also has the right not to renew licenses for restaurants that fail to cooperate with the law. Overall, these enforcement mechanisms are much stronger than enforcement standards under state or federal laws.

To determine whether employer non-compliance affected the findings on pay and employment, researchers compared restaurants in the Chinatown and Mission Districts of San Francisco (largely immigrant neighborhoods) to restaurants elsewhere. The fraction of workers paid under \$8.50 declined at the same rate in covered Chinatown/Mission restaurants (from 49 percent to 5 percent) and covered restaurants elsewhere (from 55 percent to 6 percent). Changes in employment were also not statistically significantly different from elsewhere in the city.

IMPACT ON JOB TENURE AND FULL-TIME WORK

Higher pay is usually associated with greater worker retention. On average, job tenure for workers in affected restaurants increased by 2.1 months after the wage mandate. This increase occurred mainly in limited-service restaurants. On average, job tenure in affected limited-service restaurants increased by 3.5 months. This finding was also statistically significant.

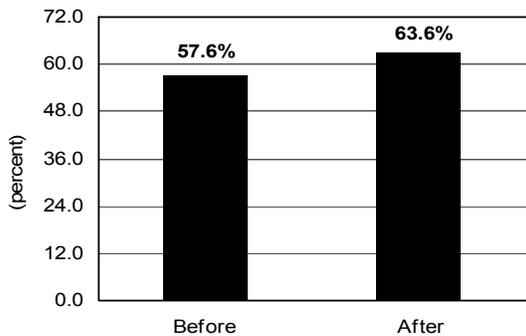
FIGURE 6 - CHANGE IN AVERAGE JOB TENURE FOR LIMITED-SERVICE RESTAURANTS



Source: Dube, Naidu and Reich (2005).

In addition, 6 percent of the workforce moved from part-time to full-time jobs within affected limited-service restaurants. This result was statistically significant.

FIGURE 7 - PERCENT FULL-TIME WORKERS, AFFECTED LIMITED-SERVICE RESTAURANTS

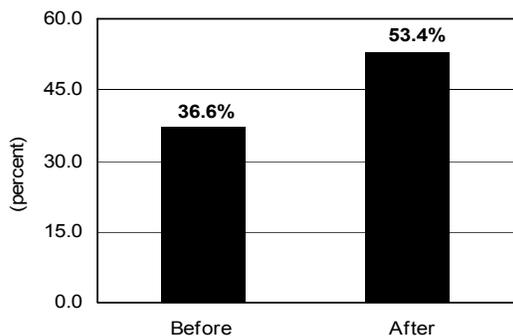


Source: Dube, Naidu and Reich (2005).

IMPACT ON THE COMPOSITION OF TIPPED WORKERS

The San Francisco minimum wage applies equally to tipped and non-tipped workers. After the policy, there was a substantial rise in the percentage of tipped workers in full-service restaurants. 16.8 percent of the workforce in full-service restaurants went from receiving no tipped income to some such income. This result was statistically significant.

FIGURE 8 - CHANGE IN PERCENTAGE OF TIPPED WORKERS, AFFECTED FULL-SERVICE RESTAURANTS



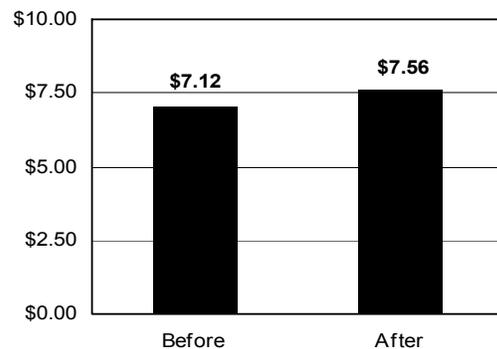
Source: Dube, Naidu and Reich (2005).

The increase in tipped workers may represent a hiring substitution, away from non-tipped workers towards more experienced workers. Alternatively, it may represent a greater sharing of tips among existing workers or perhaps increased task sharing among bussers and wait staff.

IMPACT ON PRICES

After implementation of the citywide minimum wage, average restaurant prices increased in San Francisco by 2.8 percent more than average prices in the East Bay. This increase was not statistically significant. Price increases mainly occurred in San Francisco's limited-service restaurants, where average prices increased by 6.2 percent more than limited-service restaurants in the East Bay. The price increase in limited-service restaurants was statistically significant.

FIGURE 9 - AVERAGE RESTAURANT PRICES, LIMITED-SERVICE RESTAURANTS



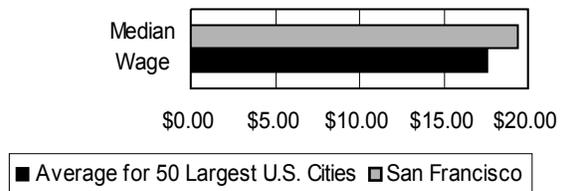
Source: Dube, Naidu and Reich (2005).

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POLICY IMPLICATIONS

As the real value of the federal minimum wage continues to decline, state and local minimum wage policies are becoming more commonplace. The San Francisco minimum wage substantially increased pay for low-wage workers without leading to job loss.

FIGURE 10 - COMPARISON OF SAN FRANCISCO AND OTHER MAJOR CITIES



Source: Dube, Naidu and Reich (2005).

FIGURE 10 - COMPARISON OF SAN FRANCISCO AND OTHER MAJOR CITIES (CONT'D)



Source: Dube, Naidu and Reich (2005).

While business and city characteristics may alter the economic effects of a particular minimum wage ordinance, similar effects are likely to occur in major U.S. cities that have a similar proportion of workers in the restaurant industry. Although San Francisco has higher pay than other major cities, industries that employ low-wage workers are similar in San Francisco and other major cities. The responses to the minimum wage in San Francisco are likely to be similar to those in other major cities implementing wage standards.

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NOTES

IIR brings together faculty and graduate students from across the campus and supports multidisciplinary research on all aspects of labor and employment relations. Activities throughout IIR are coordinated through centers and units that have a specific charge or focus. These units are organized under two broad program areas: Academic Initiatives, led by UCB faculty members; and Community Outreach & Research, managed by professional staff members with strong faculty involvement.

IIR is an Organized Research Unit of the University of California at Berkeley. IIR was founded in 1945. Its first director was UC President Emeritus Clark Kerr. The current Director is Professor Michael Reich, Department of Economics.

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