

Policy Brief:

Assessing the Distribution of Wage Increases and
Answering Public Policy Questions Regarding a
San Francisco Minimum Wage

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EXECUTIVE SUMMARY

The Center for Labor Research and Education has conducted an analysis of the benefits to San Francisco workers from the proposed increase in the local minimum wage to \$8.50 per hour from its current level of \$6.75 per hour. Key findings include:

- ❑ More than 55,700 workers will see an average annual pay increase of \$1,946 – more than \$160 per month – as a result of increasing the minimum wage.
- ❑ The combined purchasing power of 38,000 low-wage San Franciscans will increase by more than \$75 million.
- ❑ More than 60% of that income – roughly \$45 million – will be spent on items such as food, apparel, repairs, and personal services that are likely to be purchased in neighborhood businesses close to home.
- ❑ One out five San Francisco workers of color will see their incomes rise as a result of a minimum wage increase:
 - Nearly 4,300 African Americans will see the largest average increase, \$2,463 per year;
 - Over 12,200 Chinese Americans will see an average annual increases of \$2,055;
 - Over 12,000 Latinos will see an average annual increase of nearly \$1,700.
- ❑ 29% of all beneficiaries are parents.
- ❑ Almost 60% of the nearly 16,000 young people under the age of 25 seeing a wage increase are students.

Business will see minor cost increases that will in part be offset by increased local spending by the beneficiaries of the minimum wage increase and higher productivity due to turnover reductions and improved efficiency. Reich and Laitinen showed that overall the wage increase amounts to an average of 1.1% of the city’s overall wage bill and that 82% of all businesses would see less than a 1% increase in total costs. Only 2.4% of low-wage workers are in small businesses with fewer than 25 employees.

Recent concerns about the overall health of San Francisco’s restaurant industry and the impact that increasing the minimum wage will have upon it are not supported by the data. The industry has outperformed the broader economy and weathered the recession with one-third the job cuts of other sectors. Taxable sales were \$15 million higher in the third quarter of 2002 than in the first quarter of 2001 – long before the terrorist attacks that dramatically reduced tourism or the recession induced slowdown in business travel began in earnest. Overall, restaurants employ more people today than they did at the beginning of the dot-com boom. Although the wage hike will be for the most part “passable” to the final consumer, cost savings from increased productivity and efficiency, and reduced turnover and absenteeism suggest that this may not be required.

BACKGROUND AND PURPOSE

In November 2003 San Franciscans voters will be asked to decide whether to establish a minimum wage of \$8.50 per hour for businesses in San Francisco. This brief provides more detailed information about the effects on workers of the raising the minimum wage. It builds on the work of Professor Michael Reich and Amy Laitinen of the University of California Center for Labor Research and Education assessing the feasibility of raising San Francisco's minimum wage.

San Francisco's Living Wage Task Force originally raised the question of a local minimum wage in 1999 during the public deliberations on establishing a minimum compensation ordinance (MCO) for San Francisco contractors and businesses doing business on City property. In a resolution supported by all but one of its members, the Task Force recommended the undertaking of a study of the economic impacts of a local or regional minimum wage. Although the City adopted a "Living Wage" in October 1999 it took no action on the Task Force's recommendation. In 2002 the Board of Supervisors commissioned the Reich and Laitinen study, which focused solely on San Francisco and was completed in May 2003.

Reich and Laitinen concluded that a moderate increase in the minimum wage from the current statewide rate of \$6.75 per hour to \$8.50 per hour would have minimal impacts on businesses and the local economy, with over 82% of businesses seeing less than a 1% increase in total costs. The report provided only a broad idea of how various racial/ethnic groups would be affected by a minimum wage hike due to the nature of their establishment focused survey and timing issues with the release of appropriate US Census data. This brief quantifies the financial benefits that will accrue to San Francisco's low-wage workers and their communities as a result of setting an \$8.50 per hour local minimum wage. This is done primarily through an analysis of the local economy and US Census micro-data. Additionally, it considers the economic concerns raised by some stakeholders subsequent to the release of the Reich and Laitinen report and the placement of the minimum wage initiative on the ballot.

METHODOLOGY

The findings in this brief are based on an analysis of self-reported household data from the 2000 decennial census that has been adjusted for income growth and changes in industry employment through the second quarter of 2003. Calculating the figures contained in the Minimum Wage Index consisted of the following steps:

- ❑ Deriving the hourly wage of census respondents based on their annual wage income and the weeks and hours worked in 1999;
- ❑ Adjusting that hourly wage for income growth from 1999 to June 2003;
- ❑ Isolating the San Francisco labor force and adjusting it to reflect changes in employment by industry within the San Francisco Metropolitan Statistical Area, which is comprised of San Francisco, San Mateo, and Marin Counties; and
- ❑ Differentiating between the direct and indirect beneficiaries of the legislation and everyone else. Direct benefits accrue to all workers earning below the new minimum wage. Indirect benefits go to those working above the minimum wage but receiving “ripple” effect from the increase; these are calculated using the methodology used in the Reich and Laitinen report.

Data Sets Used

The Reich and Laitinen report was based on an establishment survey conducted by the authors. While useful for extrapolating estimates of the total number of workers affected by the ordinance and the effects on industry, the survey could not be used to estimate the benefits to various age, ethnic, and racial groups. Instead, publicly available secondary data sources were used for this report. The figures were arrived at using combination of data from the US Census, Bureau of Labor Statistics, and California Employment Development Department. Additional data from these and other sources was used to supplement the discussion of findings. These are described as follows:

- ❑ ***US Bureau of Labor Statistics (BLS), Wage Growth***; available at <http://data.bls.gov/cgi-bin/surveymost?cc> [Private industry, All Workers, Wages and Salaries]. The Bureau of Labor Statistics (BLS) tracks national employment cost trends on a quarterly basis. This file thus allows for wages reported in 1999 to be adjusted to current levels. The file does not disaggregate by industry.
- ❑ ***US Census Public Use Microdata 1% Sample (PUMS)***; available at www.ipums.org. This 2000 data set presents detailed self-reported information regarding employee residence, commute and migration patterns, race, gender, industry and occupation, wage and income, household, educational, and other demographic data for a 1% sample of the households within a geographic reference area. The total sample size for the analysis was 3,813 persons. It served as the baseline for hourly wages, place of work, economic, and the demographic data presented in the tables in the following sections. Work variables are for 1999.
- ❑ ***California Employment Development Department (EDD), Historical Labor Market Information***; available at [http://www.calmis.ca.gov/file/indhistsanfs\\$hws.xls](http://www.calmis.ca.gov/file/indhistsanfs$hws.xls). This data set provides monthly tracking of labor market trends by industry within a county or metropolitan statistical area. The data was used to adjust the employment data from the

2000 PUMS file for the changes that have occurred since 1999. The file is coded in the North American Industrial Classification System (NAICS) and provides one to one correspondence between itself and the Census file.

- ***Additional Sources:*** These were primarily used to provide more robust view into the local economy and for benchmarking.
 - 1997 Economic Census – The US Census Bureau’s comprehensive quintennial survey of the national economy. The dataset was used to calculate the average revenue per restaurant in San Francisco;
 - 2001 County Business Patterns – The US Census Bureau’s annual estimate of industry employment and payroll. The dataset was used to calculate the changes in total employment during the 90’s and to establish San Francisco’s share of MSA level data.
 - Board of Equalization Taxable Sales Report – The State’s quarterly report showing total taxable sales by sector, city, and county. The data was used to assess restaurant industry revenues between 2001 and the third quarter of 2002 – the most recent data available.
 - 2003 Consumer Expenditure Survey – The Bureau of Labor Statistics’ analysis of spending patterns by income (both individual and household) and geography. The CES was used to estimate how and where affected workers would spend their additional income as a result of a minimum wage increase.

Assumptions

Because of the nature of the secondary data used for this analysis, several assumptions had to be made about hourly wages, income growth, labor market changes, and the overall economic structure.

- ***All census respondents reporting wage income earned at least the minimum wage.***
Some persons reported earning less than the minimum wage when their annual wage income was converted to an hourly equivalent. For the purposes of this analysis hourly wage income below the minimum wage was adjusted to the minimum wage level.
- ***Average Wage Growth for all employees across all industries and occupations.***
Wage growth in between 1999 and 2003 was not consistent across or within industries. Some industries raised wages above the national average and some below. This is also true within industries as some occupations saw higher wage growth than others. For the purposes of this analysis it was assumed that all workers saw the same growth in income.
- ***Employment changes across occupations were proportional to overall employment changes by industry.***
Conventional wisdom says that lower-wage lower skill occupations are usually the first to be cut in time of economic contraction since they have lower skill requirements and employers want to retain their higher skilled employees. For the purposes of this analysis it was assumed that any changes were across the board and that all occupations were impacted proportionally.
- ***Employment changes by industry within the SFMSA were consistent across geography.***

The San Francisco MSA is comprised of Marin, San Francisco, and San Mateo counties. For the purposes of this analysis it was assumed that the counties were proportionally impacted by changes in employment, that is San Francisco's job losses/gains were proportional to its share of the total labor market within the MSA.

□ ***Employment levels and total hours worked remain constant.***

Reich and Laitinen showed that the total costs of raising the minimum wage would be minimal and adjustments could be made through a combination of cost-pass throughs and improved efficiency in business operations. Additionally, San Francisco's experience with the much larger increases mandated by the MCO shows that businesses are able to cope with minimum wage increases without disemployment effects.

□ ***The data contains offsetting over and under-estimates.***

It was decided to leave the data set unadjusted for (a) the effects of San Francisco's living wage policies and (b) an undercount of total employment within San Francisco. Calculations indicated that these items offset one another and that the analysis of the adjusted census dataset was accurate in the aggregate, affecting the distribution of beneficiaries of the wage increase among the sectors rather than the total amount of affected workers. This is explained below:

(a) Subsequent to the Census that occurred in the spring of 2000 the City took several steps to increase the wages of local workers. First, San Francisco raised the wages of more than 4,700 (mostly part time) home health care workers in June of that year and in August adopted Living Wage policies that affected another 21,000 to 25,000 workers. About 7,000 of the persons subject to the living wage work at San Francisco International Airport in San Mateo County and are not part of this analysis because it includes only persons who report the City and County of San Francisco as their work location. The remaining 14,000 to 18,000 workers show up in the Census dataset as earning their pre-MCO wage. Today these workers are earning at least \$10 per hour.

(b) The dataset used for this analysis shows 120,000 fewer private sector workers in San Francisco than in other comparable estimates from the County Business Patterns, Employment Development Department, or Workforce Investment Board (as used in Reich and Laitinen). Using the proportions of affected workers calculated in this report this works out to an additional 16,800 workers who are affected by the ordinance - an almost direct offset of the workers discussed above. At least two reasons may be behind the discrepancy. First, some employees may consider themselves as working outside of San Francisco - for example as salespeople or construction workers - but still show up in the employer reported data as working in the City because that is the location of their office. Second, there may be an undercount. The Census Bureau has acknowledged the presence of undercounts, remedies for which were hotly debated in Congress in the later years of the Clinton presidency, and these factors individually and together may be in part responsible for the divergence.

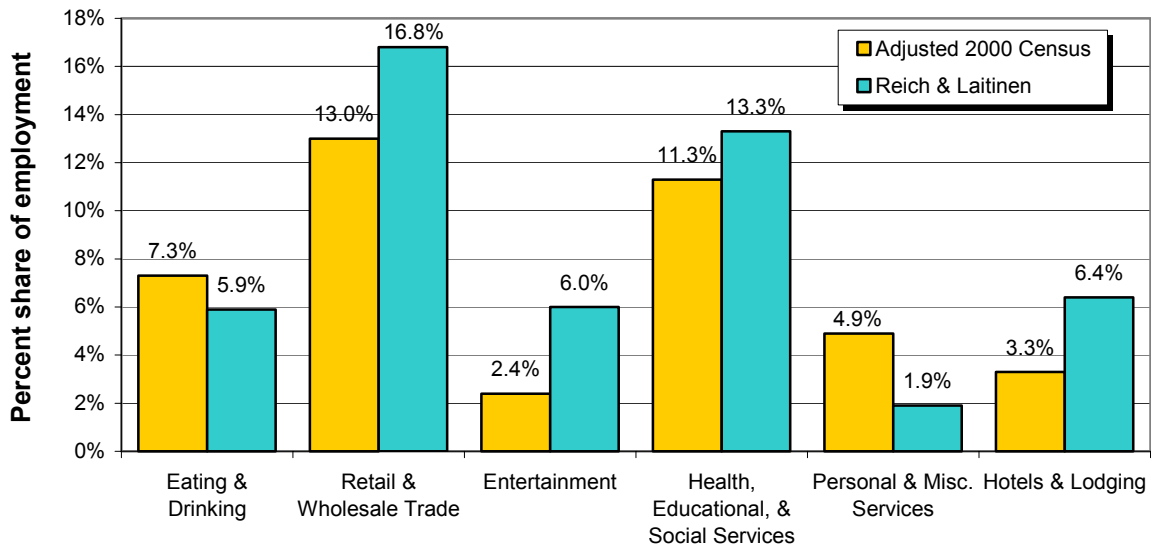
OVERVIEW OF THE LOCAL ECONOMY

This section provides a top-level overview of San Francisco’s economy and workforce in order to offer context for the following section discussing the impacts of raising San Francisco’s minimum wage.

Employment Structure

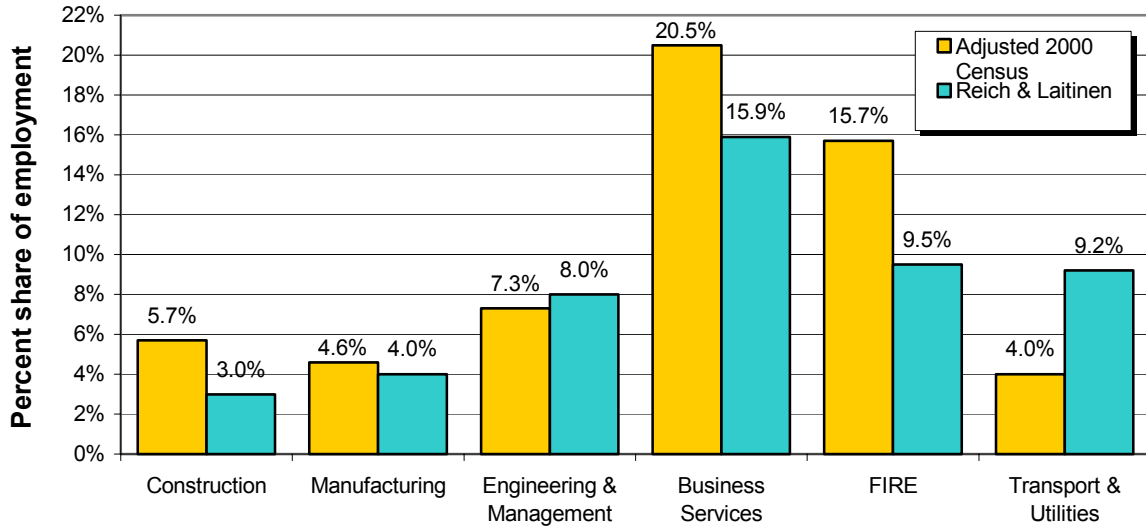
San Francisco’s employment structure differs between the individual level Census data and Reich and Laitinen’s establishment survey however is broadly consistent with other secondary data such as the Census’ County Business Patterns. Figures 1 and 2 show that San Francisco’s employment is primarily concentrated in two broad categories: visitor serving sectors such as retail and wholesale trade, entertainment, and dining and accommodations; and professional services such as finance and real estate and engineering, management, and business services make up nearly 60% of the City’s employment.

Figure 1: Employment Structure of San Francisco’s Private Sector (1)



Source: US Census 1% Public Use Microdata Sample (PUMS), California Employment Development Department (EDD), and Reich and Laitinen (2003)

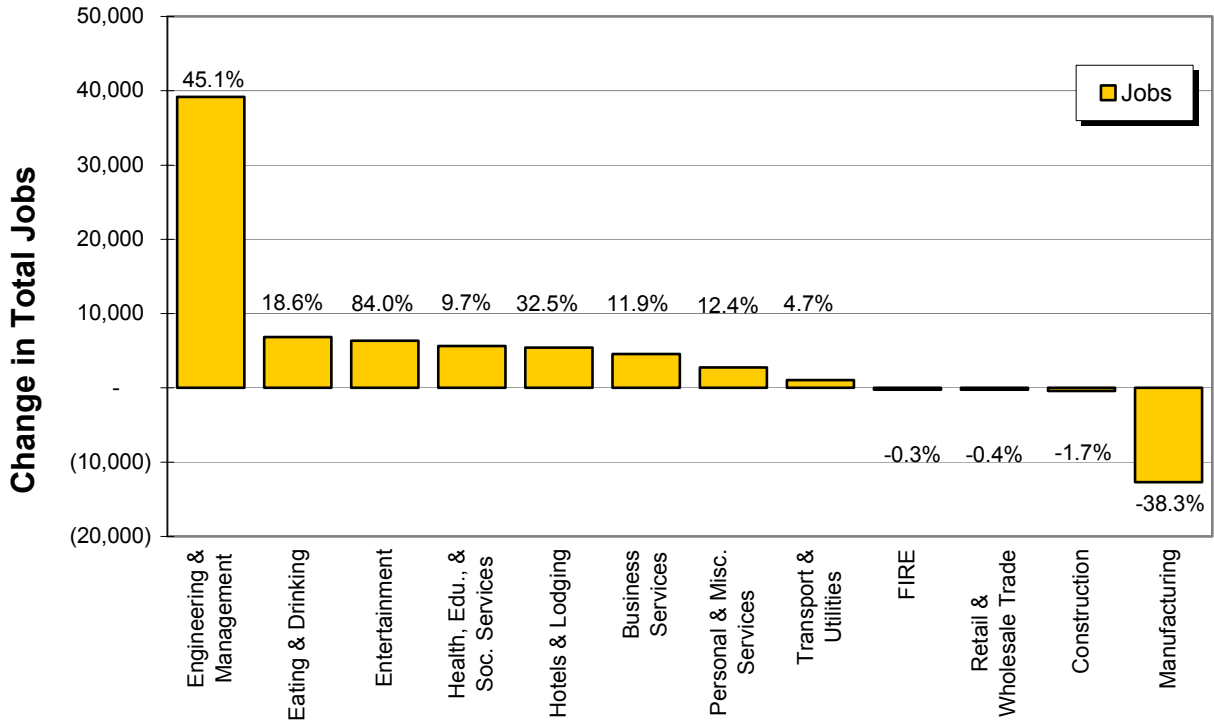
Figure 2: Employment Structure of San Francisco's Private Sector (2)



Source: US Census 1% PUMS, EDD, and Reich and Laitinen (2003)

The national economy's structural changes of manufacturing abandonment of the urban core in search of modern production facilities and lower costs in the metro suburbs as well as offshore continued throughout the 1990s. San Francisco was not immune as manufacturing and distribution related employment declined relative to the rest of the regional economy as well as in absolute terms. To replace these fundamental elements of its economic base San Francisco consolidated its position as the region's cultural and hospitality destination and a hub for media and "deal making" (Sims 2001). While the media and "deal-making" industries are relatively well compensated, the City's high reliance on entertainment, retail, and similar service employment has resulted in a proliferation of low wage employment. To get an idea of the magnitude of changes in San Francisco's economy Figure 3 shows the changes in total employment by sector throughout the 1990's and reveals the extent of the transformation. With the exception of the Engineering and Management sector, the national trend for the City's leading sectors has been increasing reliance on low wage labor as a proportion of their labor force (Bernhardt, et al 2001).

Figure 3: Absolute and Percentage Change in San Francisco Employment by Sector, 1990 – 2000



Source: US Census County Business Patterns

Ethnic Mix

Whites make up the majority of San Francisco’s workforce with 56% of total workers while Asians account for another quarter. African Americans and individuals who identify as either multi-racial or “other” account for most of the remainder. Table 1 provides an overview of the racial makeup of San Francisco’s workforce.

Table 1: Race/Ethnicity of Workers San Francisco Private Sector

Race/Ethnicity	Total	Percent
White alone	220,259	56%
Black or African American alone	24,031	6%
American Indian, Alaskan Native, Hawaiian	3,778	1%
Asian alone	98,449	25%
Other race alone	23,612	6%
Two or more major race groups	20,950	5%
<i>Hispanic</i>	<i>55,540</i>	<i>14%</i>
All affected workers	391,079	

Source: Author’s calculations using data from Census and EDD; Reich and Laitinen (2003)

Cost of Living

Low-wage workers face a variety of pressures in making ends meet with the long term erosion of the real value of the minimum wage and the continuing high cost of housing (and subsequent lack of adequate affordable options) constituting the biggest problems.

Declining Real Value of the Minimum Wage

As discussed in Reich and Laitinen, the national minimum wage has steadily declined in real value since its being enacted during the Great Depression. Although the federal government has not raised the national minimum wage since 1997 when the wage was brought up to \$5.15 per hour it has not restored its purchasing power. For example, the minimum wage's real value in 1999 was 21% lower than twenty years earlier. California's \$6.75 minimum wage is only 70% of the minimum wage's peak real value in 1968.

State level policies have attempted to mitigate these effects; in total 10 states and the District of Columbia have enacted their own minimum wages with Alaska having the highest at \$7.15 per hour. Oregon and Washington voters have tied increases in the minimum wage to inflation. Beginning in 2004 Oregon's minimum wage will go up from \$6.90 to \$7.10 per hour. In 1999 California's voters raised the minimum wage in two equal increments from \$5.75 per hour to its current \$6.75 level but did not include an indexing provision to adjust for inflation.

San Francisco's High Cost

Reich and Laitinen explained that San Francisco is California's most expensive city in which to live and among the highest cost areas in the country. San Francisco's cost of living is 184% that of the national average, meaning that a minimum wage worker would have to earn nearly \$9.50 per hour simply for her wages to be equivalent with those of her counterparts in other parts of the country. The "self-sufficiency" wage for an average family with two working adults was \$12.51 per hour.

A significant reason for this is the cost of housing. During the mid to late 1990's a San Francisco's record low vacancy rates and influx of high wage information and technical professionals drove the price of housing to unprecedented new heights. More than two years after the beginning of the recession the average monthly rent for an apartment in San Francisco was more than \$1,500 per month. Recent fee increases exacerbate these economic stresses. For example San Franciscans will see increases for transportation, children's services, and health care. Students will see tuition increases of 20-30% students will be seeing 20-30% increases in community college and university tuition.

IMPACTS OF INCREASING THE MINIMUM WAGE

Increasing San Francisco’s minimum wage will provide broad benefits to low-income workers. The findings generally confirm the Reich and Laitinen report’s estimate of the total number of workers affected by a local minimum wage increase as well as the average wage bill increase.

Impact on Workers

Table 2 shows that more than 55,000 workers, making up 14% of the employed private sector workforce, will benefit directly and indirectly as a result of an increase of the minimum wage to 8.50 per hour.

Table 2: Comparison of Estimates of Affected Workers

Effect of Minimum Wage increase	Adjusted US Census		Reich & Laitinen	
Direct and Indirect Effects	55,740	14%	54,370	11%
No Effect	335,339	86%	458,559	89%
Total, Private Sector Workers	391,079	100%	512,929	100%

Source: Author’s calculations using data from US Census, US Bureau of Labor Statistics, and EDD; Reich and Laitinen

Benefits Distribution

More than one in five non-white workers and almost one in ten whites will enjoy higher incomes as a result of the minimum wage increase. The average wage increase for all workers will be \$1,946, a 16% raise over their current pay. African Americans will receive the biggest increase, at \$2,463 per year. Table 3 shows how the minimum wage is distributed among the major racial/ethnic groups.

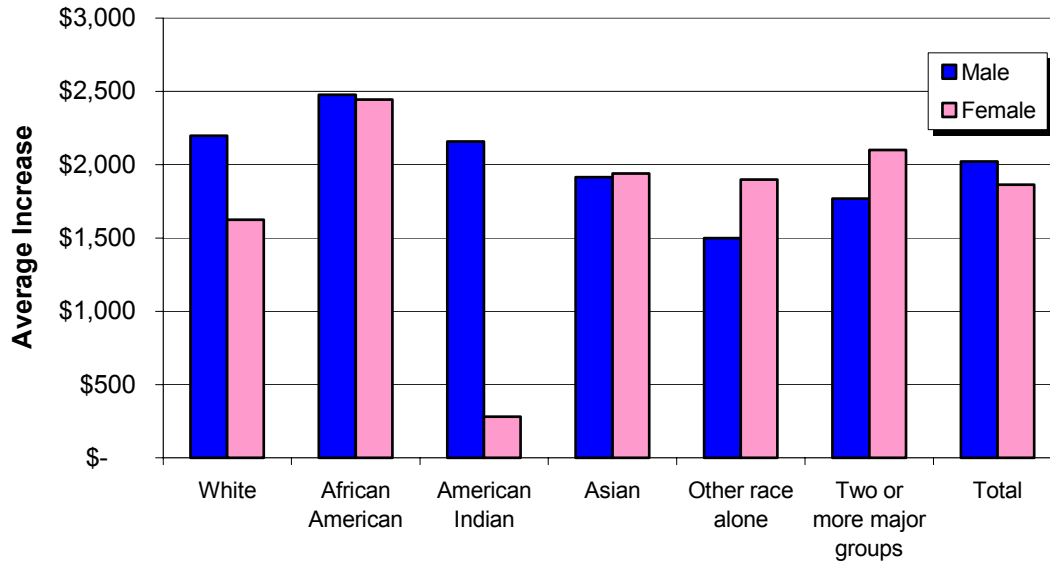
Table 3: Wage Increase by Race/Ethnicity

Annual Raise by Race	Number	Percent of all affected workers	Percent of Workers in Racial/ Ethnic Group	Average Raise	Total Increase in Purchasing Power
White alone	20,638	37%	9%	\$1,937	\$39,977,980
Black or African American alone	4,298	8%	18%	\$2,463	\$10,588,264
American Indian, Alaskan Native, Hawaiian	634	1%	18%	\$1,739	\$1,102,490
Asian alone	20,967	38%	21%	\$1,929	\$40,449,609
Chinese	12,228			\$2,055	\$25,133,769
Filipino	8,206			\$1,720	\$14,114,673
Other race alone	5,017	9%	21%	\$1,664	\$8,348,278
Two or more major race groups	4,187	8%	20%	\$1,911	\$8,002,008
<i>Hispanic (all racial groups)</i>	12,036	22%	22%	\$1,688	\$20,313,451
All affected workers	55,740			\$1,946	\$108,468,629

Source: Author’s calculations using data from Census, BLS, and EDD

As found in Reich and Laitinen, men will benefit more than women from an increase in the minimum wage. This can be primarily attributed to the fact that men in this sample on average work two more hours per week and four more weeks per year than women. Figure 4 shows the income effects of the increase by race and gender.

Figure 4: Average Annual Income Increase by Race and Gender



Source: Author's calculations using data from Census, EDD, and BLS

Young people under age 25 account for 30% of the beneficiaries, and a majority of these young people are students. Of note is that workers between 35 and 54 have the highest income gain from the increase. This is surprising because it is expected that older workers move up the wage scale and earn more than their younger counterparts. Workers in low wage jobs by age 35 can expect to see a lifetime of low wages. (Bernhardt, et al 2001)

Table 4: Wage Benefit by Age Group

Age Group	Number	Percent	Average Raise
Under 18	1,229	2%	\$706
18-25	15,866	28%	\$1,503
26-34	12,402	22%	\$1,931
35-54	19,124	34%	\$2,427
55-64	4,752	9%	\$1,822
Over 65	2,370	4%	\$1,998

Source: Author's calculations using data from Census, EDD, and BLS

Students make up a sizeable portion of all affected workers. Because they attend school and must balance their work and studies they work less than other workers and consequently can expect smaller annual income increases from a minimum wage hike.

Table 5: Average Income Increase by Student Status

Annual Raise by Student Status	Number	Percent	Average Raise
All Students	13,590	24%	\$1,253
<i>San Francisco Resident</i>	9,181	68%	\$1,305
<i>Under 25</i>	9,266	68%	\$1,154
<i>Non-white</i>	6,328	47%	\$1,296
Not enrolled in school	42,150	76%	\$2,170

Source: Author's calculations using data from Census, EDD, and BLS

San Franciscans constitute about 56% of the City's total workers, but will make up 68% of the workers benefiting from the raise. These almost 38,000 individuals will see an average annual income increase of \$1,994, nearly \$150 per year more than their counterparts who live outside of the City and County of San Francisco.

Table 6: Average Income Increase by Residence

Annual Raise by Residence	Number	Percent	Average Raise
City and County of San Francisco	37,706	68%	\$1,994
Other Bay Area Counties	18,035	32%	\$1,846

Source: Author's calculations using data from Census, EDD, and BLS

Parents will make up 29% of all beneficiaries of a minimum wage increase and total more than 16,000 individuals.

Table 7: Families

Type of Beneficiary	Number
All Workers	55,740
Parents	16,109
<i>Percentage of Workers</i>	29%

Source: Author's calculations using data from Census, EDD, and BLS

Impacts on Business

Most of these issues were discussed at length within the Reich and Laitinen report and during Professor Reich's presentation to the Board of Supervisors so they will only be mentioned again in brief. However, subsequent to that time a number concerns have been raised about potential industry level and overall labor market impacts. These are discussed in greater detail.

Costs to Business

Reich and Laitinen showed that the overall costs to industry resulting from the establishment of a local minimum wage would be minimal. The report's major findings are highlighted below:

- ❑ 1.1% increase in the average wage bill
- ❑ 82% of establishments would see less than a 1% increase in total costs
- ❑ 91% of establishments would see less than a 3% increase in total costs
- ❑ 95% of establishments would see less than a 5% increase in total costs
- ❑ Of the sectors most impacted by an increase in the minimum wage:

- ❑ 17.6% of restaurants will see an increase in total costs of more than 5%
- ❑ 8.6% are in retail will see an increase in total costs of greater than 5%
- ❑ 5.6% are in wholesale trade will see an increase in total costs of more than 5%
- ❑ 67.2% of low-wage¹ workers are in establishments with more than 100 employees
- ❑ 2.4% of low wage workers are in establishments with 25 employees or less

Economic Concerns of the Restaurant Industry

In June 2003 the Golden Gate Restaurant Association released a study assessing the state of San Francisco's restaurant industry. The report argued that the establishment of a local minimum wage for all employees would significantly and negatively impact the industry, which was already severely affected by rising costs and declining revenues resulting from the weakness in San Francisco's economy.

Several methodological concerns taint the report's conclusions with respect to the state of the industry. The response rate of only 8% for non-financial questions and 2.7% for questions related to income or expenses calls into question the representativeness of its sample. For example the average responder's annual revenue is nearly twice what would be expected from the 1997 Economic Census, which has obvious implications for the survey's estimate of average wages and tips. Of greater concern, the survey instrument intentionally created a bias by stating "our goal [with this survey] is to help public officials avoid decisions that adversely affect our businesses" on the cover letter. Regardless of these problems, the report is nonetheless helpful in identifying the industry's concerns. The following addresses these issues.

Local Economic Difficulties

The GGRA report states that San Francisco's restaurant industry has been severely hampered by the national and local recessions, which have eliminated thousands of local jobs and reduced business travel, and a sharp decline in tourism resulting from the September 2001 terrorist attacks.

While there has indeed been a decline in the total employment within the City of San Francisco and a reduction of tourism, a review of tax receipts and recent employment contradicts the picture of a highly stressed restaurant sector. According to the State Board of Equalization, by the end of the third quarter of 2002 the industry's taxable transactions were \$15 million above their total for the first quarter of 2001 and \$55 million above the first quarter of 2002.² Additionally, according to the California Employment Development Department, full service restaurants in the San Francisco Metropolitan Statistical Area (MSA) have added 2,100 jobs since reaching their lowest recent employment in January 2003. Limited service restaurants have added an additional 2,000 employees. According to the US Census County Business Patterns 57% of the MSA's full service restaurant and 62% of the limited-service restaurant jobs are in San Francisco, meaning that nearly 2,500 additional employees have been hired in 2003. The industry also did better during the recession, seeing only a 1.9% contraction, compared to 6.2% economy-wide. While the overall employment remains below the boom levels of the late 90's

¹ Low wage workers are defined in Reich and Laitinen as those earning \$7.50 or less

² California Board of Equalization, Taxable Sales in California (Sales and Use Tax); available at <http://www.boe.ca.gov/news/tsalescont02.htm>

and early 2000, the industry's steady recovery in the first half of 2003 – job gains have been posted every month – suggests that San Francisco's restaurant industry has made it past the trough of the recession. Overall, the industry as a whole is employing more people than five years ago.

Rising Costs

The GGRA report also pointed to a host of fee increases for various city services and rising energy and worker's compensation costs as further complications in its ability to absorb wage increases. According to the report, health department permit fees have increased to more than \$500 per year and garbage rates have recently increased as well. Energy costs typically constitute approximately 1.5% of total sales and amount to \$161 per seat per year. Larger chains spend up to 12% of their total costs on energy.³ According to the California Energy Commission, typical energy consumption by restaurants is five times the national average (Brohard 1999). While the cost of energy as a percentage of expenses is lower than the national average due to San Francisco's mild climate, the rate increases stemming from the state's failed energy deregulation policies constitute another significant burden. Finally, because restaurants are very labor intensive, California's large rate increases for worker's compensation insurance have fallen particularly hard on them.

Recent experience however suggests that an increase in the minimum wage may help to reduce many of these costs and help restaurants operate more efficiently. Card and Krueger (1995) estimate that wage increases reduce "quits" on one-to-one a percentage basis and that turnover rates in low-wage restaurants are often in excess of 100%. Studies by Hinkin and Tracey (2000) and Pollin and Brenner (2000) estimate the costs of turnover between \$1,332 and \$7,658 per employee depending on skill level and pay grade. Turnover greatly decreased at San Francisco International Airport as a result of its Minimum Compensation Ordinance (Reich, Hall, and Jacobs 2003). Brown (1997) provides a convenient "rule of thumb" by calculating that rehiring and retraining costs amount to approximately 20% of the employee's annual income (Zabin, et. al 2001). According to the analysis in the prior section, in excess of 10,000 restaurant workers earning an average of \$7.37 per hour and \$12,000 per year will benefit from increase in the minimum wage. Using Brown's 20% rule, the savings from reduced turnover alone amounts to nearly \$3.5 million, approximately one-seventh of the total cost of the wage increase to the industry.

This is illustrated by an interview conducted for this research brief with Larry Bain, Operations Manager of Jardinière, an upscale restaurant in San Francisco that several years ago raised the wages of all of its untipped "back of the house" employees to \$9.50 per hour and instituted a voluntary language and "life skills" program for its non-English speaking employees. Although this increased payroll related costs nearly 20%, the investment began to pay immediate dividends, with total costs dropping to pre-raise levels within four months. He attributed this to several reasons. Overtime costs went down due to declines in absenteeism and tardiness as employees felt secure enough to give up the second jobs that many needed to have in order to make ends meet and manage their other personal affairs. Moreover, because employees were well rested when they came to work they performed better. Food costs went down significantly

³ E-Source, Platts Research & Consulting; www.esource.com

as a result of reductions of waste and shrinkage. Since food accounts for 30% or more of all costs (Sims 2003), such savings can be tremendous. Overall morale in the kitchen went up allowing Bain to successfully implement other cost cutting programs like composting to reduce his trash loads. While Jardinière's dramatic experience can be in part attributed to the additional programs that it provided for its employees, the wage increase was the lynchpin of the benefits that allowed employees to take advantage of these opportunities.

Benefits to Local Business

In addition to the expected performance and productivity benefits to low-wage employees discussed above, an increase in the minimum wage will indirectly benefit local merchants as the 38,000 San Francisco residents who will see an average wage increase of \$1,994 per year re-spend part of their additional income in their local neighborhoods. As discussed in Reich and Laitinen, lower income individuals tend to spend a substantial portion of additional income. Further, the lower incidence of automobile ownership by poor people necessitates reliance either on public or human powered transportation and a much smaller radius for consumption.

A rough estimate of in-town spending can be calculated by an analysis of the Consumer Expenditure survey. The CES reveals that the average San Franciscan affected by the wage increase currently earning about \$12,500 per year spends more than 60% of that income – roughly \$7,500 – on items such as food for cooking, entertainment, apparel, repairs, and personal services which are likely to be bought at neighborhood serving establishments. Affected workers can thus conservatively be expected to spend \$45 million of their additional income in these establishments. This will not only benefit local merchants, it will create multiplier effects that will further add revenues to business. Multiplier effects are not calculated in this brief.

CONCLUSION

This report shows that nearly 56,000 workers will see an average annual pay increase of \$1,946 – more than \$160 per month – as a result of increasing the minimum wage. The combined purchasing power of low-wage workers will increase by \$108 million, more than \$75 million of which will go nearly 38,000 San Francisco residents who will spend at least \$45 million of their wage increase within the City. One out five San Francisco workers of color will see their incomes rise as a result of a minimum wage increase. Nearly 4,300 African Americans will see the largest average increase, \$2,463 per year. Chinese Americans, who make up the largest group of non-whites and will see average annual increases of \$2,055 per year. Nearly 3 out of 10 of all beneficiaries are parents. More than half of the beneficiaries between the ages of 18 and 25 will be students.

Recent concerns about the overall health of San Francisco’s restaurant industry and the impact that increasing the minimum wage will have upon it are not supported by the data. Overall the industry has outperformed the broader economy and weathered the recession with one-third the job cuts of other sectors and employs more people today than it did at the beginning of the dot-com boom. By the end of September 2002 Taxable sales had increased by 3.2% over the first quarter of 2001 and the industry has recorded job gains every month in 2003. Although the wage hike will be for the most part “passable” to the final consumer, the experience of a restaurant whose wage raise was paid through productivity increases shows that this may not be required.

ABOUT THE AUTHOR

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